

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON

(Prepared for inclusion in this Prospectus)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES

(Company Registration No: 199606464C)

(Incorporated in the Republic of Singapore)

**REPORT OF THE AUDITORS TO THE MEMBERS OF
FRONTKEN (SINGAPORE) PTE LTD**

We have audited the financial statements of FRONTKEN (SINGAPORE) PTE LTD set out on pages 5 to 29 for the financial year ended December 31, 2004. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year's financial statements were audited solely by Messrs JH Tan & Associates and their report dated November 5, 2004 expressed an unqualified opinion.

We conducted our audit in accordance with Singapore Standards on Auditing. 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 consolidated financial statements of the group and the financial statements of the company are properly drawn up in accordance with the provisions of the Singapore Companies Act, Cap. 50 (the "Act") and Singapore Financial Reporting Standards and so as to give a true and fair view of the state of affairs of the group and of the company as at December 31, 2004 and of the results, changes in equity of the group and of the company, and cash flows of the group for the year ended on that date; and
- (b) the accounting and other records required by the Act to be kept by the company have been properly kept in accordance with the provisions of the Act.



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12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES
(Company Registration No: 199606464C)
(Incorporated in the Republic of Singapore)

PROFIT AND LOSS ACCOUNTS
FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2004

	Note	THE GROUP		THE COMPANY	
		2004	2003	2004	2003
		\$	\$	\$	\$
Turnover	3	22,148,268	14,727,765	19,646,484	12,886,551
Cost of goods sold		(13,569,922)	(9,601,020)	(12,016,491)	(7,967,767)
Gross profit		8,578,346	5,126,745	7,629,993	4,918,784
Less:-					
Depreciation		(286,747)	(167,636)	(242,512)	(164,399)
Salaries expenses		(2,113,397)	(1,512,801)	(1,940,666)	(1,411,273)
R&D expenses		(738,539)	(311,911)	(687,848)	(311,911)
Administration expenses		(2,006,923)	(980,466)	(1,637,286)	(866,425)
Finance expenses	4	(216,234)	(153,928)	(172,407)	(153,928)
		(5,361,840)	(3,126,742)	(4,680,719)	(2,907,936)
		3,216,506	2,000,003	2,949,274	2,010,848
Other income		154,256	17,746	139,018	116,110
Profit from operations	5	3,370,762	2,017,749	3,088,292	2,126,958
(Loss)/Gain on disposal of subsidiary companies	24(a)	(163,223)	-	77,013	-
Share of results of associated companies		159,511	154,172	-	-
Profit before taxation		3,367,050	2,171,921	3,165,305	2,126,958
Taxation expense	6	(771,918)	(429,838)	(636,539)	(407,000)
Profit after taxation		2,595,132	1,742,083	2,528,766	1,719,958
Minority interest		(27,348)	(16,660)	-	-
Profit attributable to the group		2,567,784	1,725,423	2,528,766	1,719,958

The accompanying notes on pages 10 to 29 form an integral part of the financial statements

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES

(Company Registration No: 199606464C)

(Incorporated in the Republic of Singapore)

BALANCE SHEETS AS AT DECEMBER 31, 2004

	Note	THE GROUP		THE COMPANY	
		2004	2003	2004	2003
		\$	\$	\$	\$
NON CURRENT ASSETS					
Property, plant and equipment	7	18,637,671	8,889,709	13,217,229	8,884,135
Subsidiary companies	8	-	-	3,358,488	-
Associated companies	9	330,991	250,836	344,163	221,689
Intangible assets		262,500	332,500	262,500	332,500
Goodwill on consolidation		-	24,504	-	-
Negative goodwill	10	(86,099)	-	-	-
		19,145,063	9,497,549	17,182,380	9,438,324
CURRENT ASSETS					
Inventories	11	515,870	582,155	343,839	556,212
Trade debtors	12	5,168,581	2,911,238	4,297,285	2,749,135
Other debtors, prepayments and deposits	13	840,001	140,530	697,173	96,554
Subsidiary companies	8	-	-	-	101,012
Associated companies	9	-	1,600,009	-	-
Other investment	14	-	1,000,000	-	1,000,000
Due from related parties	15	2,841	114,688	-	114,688
Due from subsidiary companies	8	-	-	1,761,256	679,713
Due from associated companies	9	61,589	1,229,249	61,589	1,229,249
Cash at banks and in hand	16	694,712	652,860	137,179	552,964
		7,283,594	8,230,729	7,298,321	7,079,527
CURRENT LIABILITIES					
Bank borrowings, secured	17	820,234	272,056	753,392	272,056
Trade creditors		1,380,230	2,130,543	1,166,377	1,916,562
Other creditors and accruals	18	2,545,651	373,188	2,223,451	270,753
Amounts due to a subsidiary		-	-	206,511	-
Amounts due to related parties	15	138,469	1,443,000	138,469	826,526
Amounts due to directors	19	215,150	1,441,090	-	1,328,366
Hire purchase creditors	20	552,479	291,637	448,806	291,637
Provision for taxation		558,362	424,643	546,665	417,038
		6,210,575	6,376,157	5,483,671	5,322,938
NET CURRENT ASSETS		1,073,019	1,854,572	1,814,650	1,756,589
LONG TERM LIABILITIES	21	(6,410,128)	(3,567,545)	(5,496,914)	(3,567,545)
		13,807,954	7,784,576	13,500,116	7,627,368
<i>Financed by:-</i>					
SHAREHOLDERS' EQUITY					
Share capital	22	9,093,984	3,050,002	9,093,984	3,050,002
Reserves		4,293,809	4,656,736	4,406,132	4,577,366
		13,387,793	7,706,738	13,500,116	7,627,368
MINORITY INTERESTS		420,161	77,838	-	-
		13,807,954	7,784,576	13,500,116	7,627,368

The accompanying notes on pages 10 to 29 form an integral part of the financial statements

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES
(Company Registration No: 199606464C)
(Incorporated in the Republic of Singapore)

**STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2004**

THE GROUP	Share Capital	Revenue Reserves	Translation Reserves	Total
	\$	\$	\$	\$
As at January 1, 2003	3,050,002	2,961,813	-	6,011,815
Dividend paid on ordinary shares of 1.282% less tax at 22%	-	(30,500)	-	(30,500)
Profit attributable to the group	-	1,725,423	-	1,725,423
As at December 31, 2003	3,050,002	4,656,736	-	7,706,738
Capitalisation of revenue reserves (Note 22)	2,700,000	(2,700,000)	-	-
Capitalisation of amounts due to shareholders and directors (Note 22)	3,343,982	-	-	3,343,982
Profit attributable to the group	-	2,567,784	-	2,567,784
Translation reserves on consolidation	-	-	(230,711)	(230,711)
As at December 31, 2004	9,093,984	4,524,520	(230,711)	13,387,793

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12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES

(Company Registration No: 199606464C)

(Incorporated in the Republic of Singapore)

**STATEMENTS OF CHANGES IN EQUITY (CONT'D)
FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2004**

THE COMPANY	Share Capital	Revenue Reserves	Total
	\$	\$	\$
As at January 1, 2003	3,050,002	2,887,908	5,937,910
Dividend paid on ordinary shares of 1.282% less tax at 22%	-	(30,500)	(30,500)
Profit after taxation	-	1,719,958	1,719,958
As at December 31, 2003	3,050,002	4,577,366	7,627,368
Capitalisation of revenue reserves (Note 22)	2,700,000	(2,700,000)	-
Capitalisation of amounts due to shareholders and directors (Note 22)	3,343,982	-	3,343,982
Profit after taxation	-	2,528,766	2,528,766
As at December 31, 2004	9,093,984	4,406,132	13,500,116

The accompanying notes on pages 10 to 29 form an integral part of the financial statements

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES

(Company Registration No: 199606464C)

(Incorporated in the Republic of Singapore)

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2004**

THE GROUP	THE GROUP 2004	THE GROUP 2003
	\$	\$
Profit before taxation	3,367,050	2,171,921
Adjustment for non-cash items:		
Share of results of associates	(159,511)	(154,172)
Loss on disposal of subsidiary companies	163,223	-
Depreciation	1,615,971	1,155,502
Translation differences	(111,556)	-
Amortisation of goodwill on consolidation	4,764	8,168
Amortisation of intangible assets	70,000	17,500
Amortisation of negative goodwill	(15,194)	-
Fixed assets written-off	-	177,027
(Profit)/Loss on disposal of property, plant and equipment	-	(112,700)
Operating profit before changes in working capital	4,934,747	3,263,246
Changes in working capital, net of effects from purchase and disposals of subsidiaries:		
Inventories	59,830	(450,138)
Trade debtors, other debtors and deposits	(2,384,722)	(42,413)
Amounts due from related parties	125,582	(105,955)
Amounts due from associated companies	1,167,660	(820,043)
Trade creditors, other creditors and accruals	938,823	797,068
Amount due to related parties	81,748	-
Amounts due to directors	230,875	-
	219,796	(621,481)
Cash generated from operations	5,154,543	2,641,765
Income tax paid	(339,250)	(129,784)
Net Cash flows from operating activities	4,815,293	2,511,981
Cash flows from investment activities:		
Investments in associated companies	(186,915)	(1,033,574)
Acquisition of property, plant and equipment	(7,481,604)	(2,186,015)
Acquisition of intangible assets	-	(350,000)
Sale/(Acquisition) of other investments	1,000,000	(1,000,000)
Dividend paid	-	(30,500)
Proceed from sale of property, plant and equipment	-	222,230
Purchase of subsidiaries, net of cash disposed (Note 24b)	(223,313)	-
Proceeds from disposal of subsidiaries, net of cash disposed (Note 24a)	14,129	-
	(6,877,703)	(4,377,859)
Cash flows from financing activities:		
Proceeds/(Repayment) of term loans	1,984,428	(68,612)
Proceeds from hire purchase institutions	219,602	547,985
Proceeds of issue of shares to minority shareholder of subsidiary company	392,813	-
Repayment of term loans	(350,409)	-
Repayments of hire purchase	(476,444)	-
Proceeds from related parties and directors	-	1,390,891
	1,769,990	1,870,264
Net change in cash at bank and in hand	(292,420)	4,386
Cash at bank and in hand at the beginning	652,860	648,474
Cash at bank and in hand at the end (inclusive of bank overdraft of \$334,272 as at December 31, 2004 (2003 : \$Nil))	360,440	652,860

During the period, the group acquired property, plant and equipment with an aggregate cost of \$8,418,709 (2003 : \$835,359) of which \$937,105 (2003 : \$469,205) was acquired by means of finance leases. Furthermore, on the purchase of subsidiaries during the current financial period, the group acquired \$205,002 of property, plant and equipment which are financed by finance leases. Cash payments of \$7,481,604 (2003 : \$366,154) was made to purchase property, plant and equipment.

The accompanying notes on pages 10 to 29 form an integral part of the financial statements

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES
(Company Registration No: 199606464C)
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NOTES TO FINANCIAL STATEMENTS – DECEMBER 31, 2004

1. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These financial statements have been prepared in accordance with the provisions of the Singapore Companies Act and Singapore Financial Reporting Standards.

b) Basis of accounting

The financial statements of the company and of the group are expressed in Singapore dollars and are prepared under the historical cost convention.

c) Basis of consolidation

The accounting period of the company and its subsidiary companies ends on December 31 and the consolidated financial statements incorporate the financial statements of the company and the subsidiary companies controlled by the company.

The results of subsidiaries acquired or disposed of are included or excluded from the respective dates of acquisition or disposal, as applicable.

Goodwill arising from consolidation, which represents the excess of consideration paid over the fair value of the net assets of a subsidiary company acquired at the date of acquisition, is amortised over its useful life of not more than 5 years using the straight-line method. Goodwill is stated at cost less accumulated amortisation.

Negative goodwill represents the excess of the 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. 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.

Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

Minority interest is stated at the appropriate proportion of the fair value of the net identifiable assets of the subsidiary at the time of acquisition.

All significant inter-company transactions and balances are eliminated on consolidation.

d) Subsidiary companies

Shares in the subsidiary companies are stated at cost and provision is made for impairment in value, if any.

e) Associated company

An associated company is defined as a company, not being a subsidiary, in which the 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.

The group's share of the results of the associated company is included in the consolidated profit and loss accounts and the share of post-acquisition reserves is included in the investments in the consolidated balance sheet.

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES
(Company Registration No: 199606464C)
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1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

f) Depreciation

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 factory	- over remaining lease period
Freehold building	- 50 years
Factory renovation	- 10 years
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 said assets.

Depreciation is not provided on freehold land.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit and loss account.

g) Revenue recognition

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

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

h) Inventories

Inventories, primarily consumables and materials, 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 the cost of materials, direct labour and attributable production overheads based on a normal level of activity.

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

i) Taxation

Taxation expense is determined on the basis of tax effect accounting, using the liability method, and it is applied to all significant temporary differences arising between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, except that a debit to the deferred tax balance is not carried forward unless there is a reasonable expectation of realisation in the foreseeable future.

Deferred tax assets and liabilities are measured using the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date. Deferred tax is charged or credited to the profit and loss 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 they relate to income taxes levied by the same tax authority.

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES
(Company Registration No: 199606464C)
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1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

j) Foreign currencies and translation

Transactions arising in foreign currencies during the financial period are converted at rates closely approximating those ruling on the transaction dates. Foreign currency assets and liabilities are translated into Singapore dollars at exchange rates ruling at the balance sheet date. All exchange differences arising from conversion are included in the profit and loss accounts.

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

k) Intangible assets

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

l) Related parties

For the purpose of these financial statements, parties are considered to be related to the company if the company and the parties are subject to common control or significant influence.

m) 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 company will not be able to collect all amounts due according to original terms of receivables. Bad debts are written off when identified.

n) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and cash placed at reputable banks.

o) Trade and other payables

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

p) Assets in progress

Assets in progress consists of land cost, related acquisition expense and construction costs incurred during the period of construction.

q) Employee benefits – *pensions and other employment benefits*

i) Pension and contributions

The company makes contributions to Central Provident Fund Scheme in Singapore and the Employee 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 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.

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FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES

(Company Registration No: 199606464C)

(Incorporated in the Republic of Singapore)

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

r) Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Significant financial liabilities include hire purchase obligations, interest-bearing bank loans and overdrafts, and trade and other payables.

The accounting policy adopted for hire purchase obligations is outlined below.

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Equity instruments are recorded at the fair value of the consideration received, net of direct issue costs.

s) Impairment of assets

At each balance sheet date, the company and group review the carrying amounts of their assets to determine whether there is any indication that those assets have suffered on 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.

t) Provisions

Provisions are recognised when the company and group have 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

u) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the group at their fair value or, if lower, at the present value of the minimum lease payments, determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless there are directly attributable to qualifying assets, in which case they are capitalised in accordance with the group's general policy on borrowing costs.

Rental payables under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

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2. GENERAL

The principal activities of the company and of the group during the financial year are the provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering works. There have been no significant changes in the nature of these activities during the financial year.

The company which is incorporated and domiciled in the Republic of Singapore has its principal place of business in the Republic of Singapore. The financial statements are expressed in Singapore dollars.

Other than the named directors, the group has 237 (2003 : 113) employees, respectively, as at the balance sheet date. The company's registered address and place of business is 156A Gul Circle, Singapore 629614.

The directors authorised these financial statements for issue on June 28, 2005.

3. TURNOVER

Turnover represents the invoiced value of goods supplied and services rendered, less discounts.

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	\$	\$	\$	\$
Rendering of services	21,707,169	14,228,599	19,205,385	12,387,385
Sales of goods	441,099	499,166	441,099	499,166
	<u>22,148,268</u>	<u>14,727,765</u>	<u>19,646,484</u>	<u>12,886,551</u>

4. FINANCE EXPENSES

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	\$	\$	\$	\$
Term loan interests	137,795	124,003	110,607	124,003
Bank overdraft interest	13,021	-	7,439	-
Hire purchase interest	65,418	29,925	54,361	29,925
	<u>216,234</u>	<u>153,928</u>	<u>172,407</u>	<u>153,928</u>

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5. PROFIT FROM OPERATIONS

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	\$	\$	\$	\$
Profit from operations is stated after charging or (crediting):				
Allowance for doubtful debts	118,167	-	118,167	-
Amortisation of intangible assets	70,000	17,500	70,000	17,500
Amortisation of goodwill	4,764	8,168	-	-
Amortisation of negative goodwill	(15,194)	-	-	-
Cost of defined contribution plans (included in staff costs)	522,326	285,875	472,433	267,699
Directors' remuneration	458,000	577,660	458,000	577,660
Gain on disposal of property, plant and equipment	-	(112,700)	-	(112,700)
Management fees from a subsidiary company	-	-	-	(84,000)
Property, plant and equipment written-off	-	177,027	-	177,027
Staff cost				
Wages*	3,454,218	2,322,957	3,096,285	2,305,940
Salaries*	1,443,135	2,943,109	1,293,673	2,842,740

* Wages are included under Cost of Sales. Salaries include salaries for the R&D department, which are classified as R&D Expenses in the Profit and Loss Accounts.

6. TAXATION EXPENSE

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	\$	\$	\$	\$
Tax on current year's profit	505,326	406,270	447,241	405,000
Deferred tax for the year	240,751	2,000	189,298	2,000
Share of taxation of associated company	25,841	21,568	-	-
	771,918	429,838	636,539	407,000

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES

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(Incorporated in the Republic of Singapore)

6. TAXATION EXPENSE (cont'd)

The taxation charged for the financial year differed from that applied with the statutory rate of 20% (2003 : 22%) to profit before taxation as a result of the following differences:

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	\$	\$	\$	\$
Profit before taxation	3,367,050	2,171,921	3,165,305	2,126,958
Tax calculated at Singapore tax rate of 20% (2003 : 22%)	673,410	477,823	633,061	467,930
Tax calculated at non-Singapore tax rate	16,142	-	-	-
Non-deductible expenses	109,479	9,825	64,067	9,592
Change in tax rate	(64,434)	-	(64,434)	-
Singapore stepped income exemption	(10,500)	(11,899)	(10,500)	(11,550)
Others	47,821	(45,911)	14,345	(58,972)
	771,918	429,838	636,539	407,000

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

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7. PROPERTY, PLANT AND EQUIPMENT

	Leasehold Factory \$	Freehold Land \$	Freehold Building \$	Factory Renovation \$	Plant and Machinery \$	Motor Vehicles \$	Office Equipment and Furniture \$	Total \$
The Group								
Cost:								
As at 1/1/2004	3,260,000	-	-	1,474,078	6,626,132	540,904	263,458	12,164,572
Acquisition of subsidiaries	-	830,750	379,015	351,290	1,550,487	95,298	101,919	3,308,759
Additions	-	-	-	654,306	7,087,179	461,027	216,181	8,418,709
Disposal of subsidiaries	-	-	-	-	-	-	(14,545)	(14,545)
Translation difference	-	(29,064)	(13,260)	(20,159)	(163,114)	(6,751)	(6,249)	(238,597)
As at 31/12/04	3,260,000	801,686	365,755	2,459,515	15,100,684	1,090,478	560,764	23,638,898
Accumulated depreciation:								
As at 1/1/2004	437,685	-	-	152,770	2,295,617	208,933	179,858	3,274,863
Acquisition of subsidiaries	-	-	13,629	16,432	77,574	9,149	18,871	135,655
Charge for the year	181,111	-	1,527	129,357	1,017,208	192,861	93,886	1,615,971
Disposal of subsidiaries	-	-	-	-	-	-	(8,971)	(8,971)
Translation difference	-	-	(526)	(1,935)	(11,155)	(851)	(1,821)	(16,291)
As at 31/12/2004	618,796	-	14,630	296,624	3,379,244	410,092	281,823	5,001,227
Charge for 2003	181,111	-	-	88,087	718,668	108,182	59,454	1,155,502
Net book value:								
As at 31/12/2004	2,641,204	801,686	351,124	2,162,891	11,721,442	680,386	278,941	18,637,671
As at 31/12/2003	2,822,315	-	-	1,321,308	4,330,515	331,971	83,600	8,889,709

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES
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7. PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Leasehold Factory	Factory Renovation	Plant and Machinery	Motor Vehicles	Office Equipment and Furniture	Total
	\$	\$	\$	\$	\$	\$
The Company						
Cost:						
As at 1/1/2004	3,260,000	1,474,078	6,626,132	540,904	248,913	12,150,027
Additions	-	505,398	4,580,423	372,129	169,779	5,627,729
As at 31/12/2004	3,260,000	1,979,476	11,206,555	913,033	418,692	17,777,756
Accumulated depreciation:						
As at 1/1/2004	437,685	152,770	2,295,617	208,933	170,888	3,265,893
Charge for the year	181,111	94,875	776,137	176,530	65,981	1,294,634
As at 31/12/2004	618,796	247,645	3,071,754	385,463	236,869	4,560,527
Charge for 2003	181,111	88,087	718,668	108,182	56,217	1,152,265
Net book value:						
As at 31/12/2004	2,641,204	1,731,831	8,134,801	527,570	181,823	13,217,229
As at 31/12/2003	2,822,315	1,321,308	4,330,515	331,971	78,026	8,884,135

Plant and machinery includes \$853,287 (2003 : \$627,141) and \$824,457 (2003 : \$627,141) of equipment used in the group and company's research and development facilities and assets in progress of \$2,653,329 (2003 : \$116,460) and \$2,631,952 (2003 : \$116,460) for the group and company respectively.

Plant and machinery, motor vehicles and office equipment and furniture with carrying amount of \$1,317,434 (2003 : \$796,207); \$648,085 (2003 : \$331,971); and \$49,226 (2003 : \$49,015) respectively, for the group are held under finance leases.

Plant and machinery, motor vehicles and office equipment and furniture with carrying amount of \$1,032,874 (2003 : \$796,207); \$527,567 (2003 : \$331,971); and \$49,226 (2003 : \$49,015) respectively, for the company are held under finance leases.

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES
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8. SUBSIDIARY COMPANIES

	THE COMPANY	
	2004	2003
	\$	\$
Unquoted equity shares, at cost	3,358,488	101,012
Shown as:		
Long-term asset	3,358,488	-
Short-term asset	-	101,012
	3,358,488	101,012

The details of the subsidiary companies as at December 31, 2004 and December 31, 2003 are as follows:

Name of Company	Principal Activities	Place of Incorporation	Interest Acquired		Cost of Investment	
			2004	2003	2004	2003
			%	%	\$	\$
Frontken Philippines Inc*	Provision of surface metamorphosis technology using thermal spray coating processes including mechanical and chemical engineering works	Philippines	99	-	852,665	-
Frontken Malaysia Sdn Bhd and its subsidiary company*:	-ditto-	Malaysia	100	-	2,505,823	-
- Frontken-AMT Engineering Sdn Bhd	-ditto-	Malaysia	60	-	-	-
Frontken Engineering Pte Ltd#	Engineering and metal works, and trading of engineering parts	Republic of Singapore	-	100	-	50,002
Marc Energy Pte Ltd#	Trading of new and re-conditioned industrial machinery and equipment	Republic of Singapore	-	100	-	3

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES

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8. SUBSIDIARY COMPANIES (cont'd)

Name of Company	Principal Activities	Place of Incorporation	Interest Acquired		Cost of Investment	
			2004	2003	2004	2003
			%	%	\$	\$
Arrowjet Pte Ltd#	General trading	Republic of Singapore	-	51	-	51,000
CNC Surface Science Pte Ltd#	Engineering services and trading	Republic of Singapore	-	70	-	7
					<u>3,358,488</u>	<u>101,012</u>

The intercompany balances are interest-free and without fixed repayment terms.

* The companies above were associated companies in 2003 (see Note 9).

These subsidiary companies were disposed on July 26, 2004.

9. ASSOCIATED COMPANIES

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	\$	\$	\$	\$
<u>Long Term</u>				
Unquoted equity shares, at cost	344,163	221,689	344,163	221,689
Share of post acquisition results	(13,172)	29,147	-	-
	<u>330,991</u>	<u>250,836</u>	<u>344,163</u>	<u>221,689</u>
<u>Short Term</u>				
Unquoted equity shares, at cost	-	1,481,052	-	-
Share of post acquisition results	-	118,957	-	-
	<u>-</u>	<u>1,600,009</u>	<u>-</u>	<u>-</u>

The intercompany balances are interest-free and without fixed repayment terms.

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES
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9. ASSOCIATED COMPANIES (cont'd)

The details of the associated companies as at December 31, 2004 and December 31, 2003 are as follows:

Name of Company	Principal Activities	Place of Incorporation	Interest Acquired		Cost of Investment	
			2004	2003	2004	2003
			%	%	\$	\$
Frontken Thailand Co Ltd	Provision of surface metamorphosis technology using thermal spray coating processes including mechanical and chemical engineering works	Thailand	40	40	344,163	157,248
Frontken Malaysia Sdn Bhd*	-ditto-	Malaysia	-	20	-	29,056
Frontken Philippines Inc*	-ditto-	Philippine	-	40	-	35,385
					<u>344,163</u>	<u>221,689</u>

*The companies above are subsidiary companies in 2004 (see Note 8).

10. NEGATIVE GOODWILL

	<u>The Group</u> <u>2004</u> \$
Gross Amount:	
At beginning of year	-
Arising on acquisition of subsidiaries [Note 24(b)]	101,293
Transfer to profit and loss	(15,194)
At end of year	<u>86,099</u>

Release of negative goodwill of \$15,194 is included under other operating income.

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES
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11. INVENTORIES

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	\$	\$	\$	\$
At cost:				
Consumables	426,870	190,538	254,839	190,538
Trading stocks	89,000	306,617	89,000	280,674
Work-in-progress	-	85,000	-	85,000
	<u>515,870</u>	<u>582,155</u>	<u>343,839</u>	<u>556,212</u>

12. TRADE DEBTORS

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	\$	\$	\$	\$
Trade debtors	5,288,581	2,934,839	4,417,285	2,772,736
Less Allowance for doubtful debts	(120,000)	(23,601)	(120,000)	(23,601)
	<u>5,168,581</u>	<u>2,911,238</u>	<u>4,297,285</u>	<u>2,749,135</u>

13. OTHER DEBTORS, PREPAYMENTS AND DEPOSITS

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	\$	\$	\$	\$
Deposits	571,698	78,892	519,555	76,094
Prepayments	134,688	17,477	50,602	17,477
Recoverable expenses	39,538	-	39,538	-
GST receivables	-	40,098	-	-
Other debtors	94,077	4,063	87,478	2,983
	<u>840,001</u>	<u>140,530</u>	<u>697,173</u>	<u>96,554</u>

14. OTHER INVESTMENT

This represents a short-term investment acquired by the company in 2003 which was divested during the current financial year (Note 23).

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES

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15. AMOUNTS DUE FROM/(TO) RELATED PARTIES

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	\$	\$	\$	\$
Amounts due from related parties:				
Non trade	2,841	114,688	-	114,688
Amounts due to related parties:				
Trade	(138,469)	-	(138,469)	-
Non trade	-	(1,443,000)	-	(826,526)

Amounts due from/(to) related parties are unsecured, interest free and have no fixed terms of repayments. Related parties are companies or business enterprises where directors of this company have financial or equity interests.

16. CASH AT BANKS AND IN HAND

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	\$	\$	\$	\$
Cash at bank	681,914	650,858	134,179	550,964
Cash in hand	12,798	2,002	3,000	2,000
	694,712	652,860	137,179	552,964

17. BANK BORROWINGS, secured

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	\$	\$	\$	\$
Bank overdraft	334,272	-	334,272	-
Term loans:-				
Term loan I	2,764,045	2,280,749	2,096,441	2,280,749
Term loan II	1,926,434	-	1,926,434	-
Bridging loan	65,591	97,419	65,591	97,419
	4,756,070	2,378,168	4,088,466	2,378,168
Less: amounts due after 12 months (Note 21)	(4,270,108)	(2,106,112)	(3,669,346)	(2,106,112)
Amounts due within 12 months	485,962	272,056	419,120	272,056
	820,234	272,056	753,392	272,056

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

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17. BANK BORROWINGS, secured (cont'd)

The company

Bank overdraft

The bank overdraft is secured by means of a first fixed charge on the company's leasehold factory with a net book value of \$2,641,204 (2003 : \$2,882,315). The bank overdraft is jointly and severally guaranteed by the directors of the company. The bank overdraft attracts an annual interest of 5%.

Term loan I

The factory loan to the company amounting to \$2,096,441 (2003 : \$2,280,749) is secured by means of a first fixed charge on the said leasehold factory. The loan is repayable over a period of one hundred and forty-four months with average monthly installment of approximately \$23,300 (2003 : \$24,000) and the loan attracts annual interests ranging from 3.65 % to 5% (2003 : 5.00% to 5.25%). The loan is jointly and severally guaranteed by the directors of the company. The loan is repayable by July 2013 and is denominated in Singapore dollars.

Term loan II

The working capital loan to the company amounting to \$1,926,434 (2003 : \$Nil) and is secured by means of a first fixed charge on the company's leasehold factory. The loan attracts annual interest of 2.65% (2003 : Nil%). The loan is also jointly and severally guaranteed by the directors of the company. The loan is repayable by June 2014 and is denominated in Singapore dollars.

Bridging loan

The bridging loan is a working capital loan amounting to \$65,591 (2003 : \$97,419) and it is secured by a joint and several guarantee by the directors of the company. Annual interest at 5% is charged on this said loan. The loan is repayable in Singapore dollars over a period of 36 months with average monthly installment of approximately \$2,998 (2003 : \$2,998). The loan is repayable by October 2006.

The group

Term loan I

In addition to what has been mentioned above at the company, a subsidiary company, which was acquired during the year, has long-term loan facilities of \$667,604 (2003 : \$Nil) obtained from banks. These long-term loans bear interest at rates ranging from 3.95% to 6.40%.

The loan is secured by means of a registered charge over the freehold land and factory building of the subsidiary company with a net book value of \$1,152,790. The loan is also secured by means of a corporate guarantee from the holding company and by joint and several guarantee from directors of the subsidiary company.

The loan is repayable by June 2013 and is denominated in Malaysian Ringgit.

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

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18. OTHER CREDITORS AND ACCRUALS

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	\$	\$	\$	\$
Due to state pension funds	80,680	63,015	80,680	63,015
Other creditors	2,464,971	274,173	2,142,771	207,738
Director's fees	-	36,000	-	-
	<u>2,545,651</u>	<u>373,188</u>	<u>2,223,451</u>	<u>270,753</u>

19. AMOUNTS DUE TO DIRECTORS

Amounts due to directors are non-trade in nature, unsecured, interest-free and have no fixed term of repayments.

20. HIRE PURCHASE CREDITORS

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	\$	\$	\$	\$
Minimum lease payments payable:				
Within one year	630,765	330,323	508,258	330,323
Between two to five years	1,169,905	843,706	952,298	843,706
More than five years	123,627	-	107,399	-
	<u>1,924,297</u>	<u>1,174,029</u>	<u>1,567,955</u>	<u>1,174,029</u>
Less finance charges allocated to future periods	(270,289)	(150,959)	(210,879)	(150,959)
Present value of finance leases	<u>1,654,008</u>	<u>1,023,070</u>	<u>1,357,076</u>	<u>1,023,070</u>
Analysis of present value of finance leases payable:				
Within one year	552,479	291,637	448,806	291,637
Between two to five years	1,003,309	731,433	820,253	731,433
More than five years	98,220	-	88,017	-
More than one year	1,101,529	731,433	908,270	731,433
	<u>1,654,008</u>	<u>1,023,070</u>	<u>1,357,076</u>	<u>1,023,070</u>

Hire purchase interests between 2.3% to 5.5% (2003 : 3.8% to 9%) and 2.3% to 5.01% (2003 : 2.63% to 5.01%) per annum are levied on the above hire purchase agreements for the group and the company respectively.

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

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21. LONG TERM LIABILITIES

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	\$	\$	\$	\$
Deferred tax liabilities:				
Balance at the beginning	730,000	728,000	730,000	728,000
Acquisition of subsidiary	67,740	-	-	-
Charge for the year	240,751	2,000	189,298	2,000
Balance at the end	1,038,491	730,000	919,298	730,000
Term loans (Note 17)	4,270,108	2,106,112	3,669,346	2,106,112
Hire purchase creditors (Note 20)	1,101,529	731,433	908,270	731,433
	6,410,128	3,567,545	5,496,914	3,567,545

Deferred tax liabilities are attributable to the following items:

Accelerated tax depreciation on property, plant and equipment	1,214,310	730,000	952,020	730,000
Unabsorbed capital allowances*	(143,097)	-	-	-
Others	(32,722)	-	(32,722)	-
	1,038,491	730,000	919,298	730,000

* The unabsorbed capital allowances are subject to agreement with tax authorities.

22. SHARE CAPITAL

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	\$	\$	\$	\$
Authorised share capital of \$1/= each:				
30,000,000 (2003 : 5,000,000) shares	30,000,000	5,000,000	30,000,000	5,000,000
Analysis of authorised share capital:				
Class "A"	-	4,800,000	-	4,800,000
Class "B"	-	200,000	-	200,000
Ordinary shares	30,000,000	-	30,000,000	-
	30,000,000	5,000,000	30,000,000	5,000,000

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

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22. SHARE CAPITAL (cont'd)

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	\$	\$	\$	\$
Issued and fully paid-up share capital of \$1/= each:				
At the beginning of the year	3,050,002	3,050,002	3,050,002	3,050,002
Capitalisation of retained earnings and amounts due to shareholders and directors	6,043,982	-	6,043,982	-
At the end of the year	9,093,984	3,050,002	9,093,984	3,050,002
Analysis of issued and fully paid-up share capital:				
Class "A"	-	3,011,602	-	3,011,602
Class "B"	-	38,400	-	38,400
Ordinary shares	9,093,984	-	9,093,984	-
	9,093,984	3,050,002	9,093,984	3,050,002

The authorised share capital was increased from 5,000,000 shares of \$1/= to 30,000,000 shares of \$1/= each through the creation of additional 25,000,000 shares of \$1/= each.

The paid-up share capital was increased from 3,050,002 shares of \$1/= each to 9,093,984 shares of \$1/= each by way of issue of 6,043,982 new shares of \$1/= each, at par, as follows:

- i) 2,700,000 shares of \$1/= each as bonus shares by way of the capitalisation of revenue reserves; and
- ii) 3,343,982 shares of \$1/= each as part payment of amounts due to the company's directors and shareholders.

These shares shall rank pari-passu with all other existing shares.

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

23. INTRA-GROUP TRANSACTIONS

The following were significant intra-group transactions during the financial year:

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	\$	\$	\$	\$
Management fees	-	(84,000)	-	(84,000)
Purchase of property	370,000	-	370,000	-
Disposal of investment (Note 14)	(1,000,000)	-	(1,000,000)	-
Rental income	(11,100)	(14,400)	(11,100)	(14,400)
Purchases of goods	563,113	669,568	1,480,070	669,568
Sales of goods and services	(16,823)	(759,617)	(798,550)	(759,617)

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

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24(a) DISPOSAL OF SUBSIDIARY COMPANIES

	THE GROUP	
	2004	2003
	\$	\$
Non-current assets	1,772,304	-
Net current liabilities	(1,333,478)	-
Minority interest	(77,838)	-
Group's share of net assets disposed	360,988	-
Goodwill unamortised	(19,740)	-
Loss on disposal of subsidiaries	(163,223)	-
Proceeds from disposal of subsidiaries	178,025	-
Less: Cash outflow from disposal of subsidiaries	(163,896)	-
Net cash disposed	14,129	-

24(b) ACQUISITION OF SUBSIDIARY COMPANIES

Non-current assets	3,209,221	-
Non-current liabilities	(951,057)	-
Net current liabilities	(1,889,682)	-
Net assets recognised previously as an associate	(109,946)	-
Group's share of net assets acquired	258,536	-
Negative goodwill arising (Note 10)	(101,293)	-
Payments for acquisition of subsidiaries	157,243	-
Less: Cash outflow from acquisition of subsidiaries – bank overdraft	66,070	-
Net cash acquired	223,313	-

25. COMMITMENTS AND CONTINGENCIES

The group and company have committed and contracted for the purchase of a leasehold property of approximately \$1,480,000 (2003 : \$Nil) and committed but not contracted for the purchase of leasehold improvements of approximately \$761,641 (2003 : \$428,000). The property was purchased subsequent to the end of the year. A subsidiary company has committed and contracted for the purchase of property, plant and equipment of \$32,440.

The company has the following contingent liabilities:

- i) corporate guarantee to a financial institution for leasing of equipment worth \$157,791 (2003 : \$Nil) extended to a subsidiary company; and
- ii) corporate guarantee to a bank for a term loan and bank overdraft facility of \$954,836 (2003 : \$Nil) extended to a subsidiary company.

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES

(Company Registration No: 199606464C)

(Incorporated in the Republic of Singapore)

26. MANAGEMENT OF FINANCIAL RISKS

The main financial risks arising from the 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:

a) Interest rate risk

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

Information relating to the group's interest rate exposure is disclosed under Notes 17 and 20.

b) Credit risk

Credit risk refers to the risk that counterparties may default on their obligations to repay the amount owing to the company resulting in a loss to the group.

The 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 group's maximum exposure to credit risks.

c) Liquidity risk

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

d) Foreign exchange risk

Currently, the 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 group reviews periodically that its net exposure is kept at an acceptable level.

e) Fair value

The carrying amounts of the financial assets and financial liabilities approximate their fair value.

27. SIGNIFICANT CORPORATE EVENT

As an integral part of the proposed listing of and quotation for the entire issued and paid-up capital of Frontken Corporation Berhad ("FCB"), a company incorporated in Malaysia, on the MESDAQ Market of Bursa Malaysia Securities Berhad ("Bursa Malaysia"), the shareholders of the company entered into a conditional share sale agreement with FCB on January 25, 2005 for the disposal of the entire shareholding in the company to FCB. Upon completion of the said proposed disposal, the company will become a wholly-owned subsidiary of FCB.

As of to date, approvals for the said proposed listing have yet to be obtained from the Securities Commission and Bursa Malaysia.

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES

(Company Registration No: 199606464C)

(Incorporated in the Republic of Singapore)


**REPORT OF THE AUDITORS TO THE MEMBERS OF
FRONTKEN (SINGAPORE) PTE LTD**

We have audited the financial statements of FRONTKEN (SINGAPORE) PTE LTD set out on pages 5 to 34 for the financial year ended December 31, 2005. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Singapore Standards on Auditing. 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 accompanying consolidated financial statements of the group and the financial statements of the company are properly drawn up in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the group and of the company as at December 31, 2005 and of the results and changes in equity of the group and of the company, and cash flows of the group for the year ended on that date; and
- (b) the accounting and other records required by the Act to be kept by the company have been properly kept in accordance with the provision of the Act.



JH TAN & ASSOCIATES
Certified Public Accountants
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March 31, 2006
Singapore



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Certified Public Accountants
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March 31, 2006
Singapore

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES

(Company Registration No: 199606464C)

(Incorporated in the Republic of Singapore)

**PROFIT AND LOSS ACCOUNTS
FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2005**

	Note	THE GROUP		THE COMPANY	
		2005	2004	2005	2004
		\$	\$	\$	\$
Turnover	5	28,055,755	22,148,268	23,379,681	19,646,484
Cost of sales		(18,285,268)	(13,569,922)	(15,237,499)	(12,016,491)
Gross profit		9,770,487	8,578,346	8,142,182	7,629,993
Less:-					
Depreciation		(189,144)	(286,747)	(123,618)	(242,512)
Staff Costs		(2,173,768)	(2,113,397)	(1,767,169)	(1,940,666)
R&D expenses		(749,541)	(738,539)	(691,404)	(687,848)
Administration expenses		(2,385,194)	(2,006,923)	(1,863,079)	(1,637,286)
Finance expenses	6	(436,308)	(216,234)	(372,891)	(172,407)
		(5,933,955)	(5,361,840)	(4,818,161)	(4,680,719)
		3,836,532	3,216,506	3,324,021	2,949,274
Other operating income	7	571,868	154,256	566,735	139,018
(Loss)/Gain on disposal of subsidiary companies		-	(163,223)	-	77,013
Share of results of associated company		2,794	159,511	-	-
Profit before taxation		4,411,194	3,367,050	3,890,756	3,165,305
Taxation expense	8	(890,843)	(771,918)	(775,355)	(636,539)
Profit for the year	9	<u>3,520,351</u>	<u>2,595,132</u>	<u>3,115,401</u>	<u>2,528,766</u>
Attributable to:					
Equity holders of the company		3,476,042	2,567,784	3,115,401	2,528,766
Minority interest		44,309	27,348	-	-
		<u>3,520,351</u>	<u>2,595,132</u>	<u>3,115,401</u>	<u>2,528,766</u>

The accompanying notes on pages 9 to 34 form an integral part of the financial statements

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES

(Company Registration No: 199606464C)

(Incorporated in the Republic of Singapore)

BALANCE SHEETS AS AT DECEMBER 31, 2005

	Note	THE GROUP		THE COMPANY	
		2005	2004	2005	2004
		\$	\$	\$	\$
Non-current assets:					
Property, plant and equipment	10	22,366,755	18,637,671	16,108,200	13,217,229
Subsidiary companies	11	-	-	4,870,824	3,358,488
Associated company	12	333,785	330,991	344,163	344,163
Intangible asset	13	192,500	262,500	192,500	262,500
Negative goodwill	14	-	(86,099)	-	-
		22,893,040	19,145,063	21,515,687	17,182,380
Current assets:					
Inventories	15	1,509,824	515,870	1,248,510	343,839
Trade receivables	16	9,112,454	5,168,581	8,054,638	4,738,571
Other receivables	17	1,068,762	904,431	645,113	2,078,732
Cash at bank and on hand	18	2,100,893	956,040	1,382,504	398,507
		13,791,933	7,544,922	11,330,765	7,559,649
Current liabilities:					
Trade payables	19	3,503,511	1,518,699	2,771,621	1,511,357
Other payables	20	1,782,706	2,545,651	1,374,811	2,223,451
Amounts due to directors	21	-	215,150	-	-
Bank borrowings, secured	22	2,457,930	1,081,562	2,385,777	1,014,720
Deferred income	23	28,285	-	28,285	-
Hire purchase creditors	24	865,925	552,479	628,073	448,806
Provision for taxation		1,089,282	558,362	1,069,930	546,665
		9,727,639	6,471,903	8,258,497	5,744,999
Net current assets		4,064,294	1,073,019	3,072,268	1,814,650
Non-current liabilities:					
Bank loans	22	6,161,931	4,270,108	5,608,598	3,669,346
Deferred income	23	55,646	-	55,646	-
Hire purchase creditors	24	1,868,624	1,101,529	1,338,896	908,270
Deferred tax liabilities	25	1,165,347	1,038,491	969,298	919,298
		9,251,548	6,410,128	7,972,438	5,496,914
		17,705,786	13,807,954	16,615,517	13,500,116
Capital, reserves and minority interests:					
Share capital	26	9,093,984	9,093,984	9,093,984	9,093,984
Reserves		8,129,602	4,293,809	7,521,533	4,406,132
Equity attributable to equity holders of the company		17,223,586	13,387,793	16,615,517	13,500,116
Minority interest		482,200	420,161	-	-
Total equity		17,705,786	13,807,954	16,615,517	13,500,116

The accompanying notes on pages 9 to 34 form an integral part of the financial statements

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES

(Company Registration No: 199606464C)

(Incorporated in the Republic of Singapore)

**STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2005**

THE GROUP	Share Capital	Revenue Reserves	Translation Reserves	Attributable to equity holders of the company Total	Minority Interest	Total
	\$	\$	\$	\$		\$
As at January 1, 2004	3,050,002	4,656,736	-	7,706,738	77,838	7,784,576
Capitalisation of revenue reserves (Note 26)	2,700,000	(2,700,000)	-	-	-	-
Capitalisation of amounts due to shareholders and directors (Note 26)	3,343,982	-	-	3,343,982	-	3,343,982
Profit for the year	-	2,567,784	-	2,567,784	27,348	2,595,132
Acquisition of additional interests in a subsidiary by minority shareholder	-	-	-	-	403,456	403,456
Translation reserves on consolidation	-	-	(230,711)	(230,711)	(88,481)	(319,192)
As at December 31, 2004	9,093,984	4,524,520	(230,711)	13,387,793	420,161	13,807,954
Effect of adoption of FRS 103 (Note 14)	-	86,099	-	86,099	-	86,099
Profit for the year	-	3,476,042	-	3,476,042	44,309	3,520,351
Translation reserves on consolidation	-	-	273,652	273,652	17,730	291,382
As at December 31, 2005	9,093,984	8,086,661	42,941	17,223,586	482,200	17,705,786

THE COMPANY

	Share Capital	Revenue Reserves	Total
	\$	\$	\$
As at January 1, 2004	3,050,002	4,577,366	7,627,368
Capitalisation of revenue reserves (Note 26)	2,700,000	(2,700,000)	-
Capitalisation of amounts due to shareholders and directors (Note 26)	3,343,982	-	3,343,982
Profit for the year	-	2,528,766	2,528,766
As at December 31, 2004	9,093,984	4,406,132	13,500,116
Profit for the year	-	3,115,401	3,115,401
As at December 31, 2005	9,093,984	7,521,533	16,615,517

The accompanying notes on pages 9 to 34 form an integral part of the financial statements

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES
(Company Registration No: 199606464C)
(Incorporated in the Republic of Singapore)

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2005**

THE GROUP	THE GROUP 2005	THE GROUP 2004
	\$	\$
Profit before taxation	4,411,194	3,367,050
Adjustment for non-cash items:-		
Share of results of associates	(2,794)	(159,511)
Government grant	(383,927)	-
Interest income	(12,956)	(570)
Interest expense	436,308	216,234
Depreciation	2,372,194	1,615,950
Translation differences	38,677	(111,535)
Amortisation of goodwill on consolidation	-	4,764
Amortisation of intangible assets	70,000	70,000
Amortisation of negative goodwill	-	(15,194)
Profit on disposal of property, plant and equipment	(73,285)	-
Loss on disposal of subsidiaries	-	163,223
Operating profit before changes in working capital	6,855,411	5,150,411
Changes in working capital, net of effects from purchase and disposals of subsidiaries:-		
Inventories	(993,954)	59,830
Trade receivables	(3,943,873)	(1,736,427)
Other receivables	(164,331)	644,947
Trade payables	1,984,812	(1,268,142)
Other payables	(762,945)	2,288,713
Amounts due to directors	(215,150)	230,875
	(4,095,441)	219,796
Cash generated from operations	2,759,970	5,370,207
Interest income received	12,956	570
Interest expense paid	(436,308)	(216,234)
Income tax paid	(233,067)	(339,250)
Net cash flows from operating activities	2,103,551	4,815,293
Investing activities:-		
Investments in associated companies	-	(186,915)
Acquisition of property, plant and equipment	(4,092,338)	(7,481,604)
Proceeds from sale of other investments	-	1,000,000
Proceeds from sale of property, plant and equipment	108,344	-
Purchase of subsidiaries, net of cash acquired (Note 28b)	-	(223,313)
Proceeds from disposal of subsidiaries, net of cash disposed (Note 28a)	-	14,129
Net cash flows used in investing activities	(3,983,994)	(6,877,703)
Financing activities:-		
Repayments of bank loans	(777,990)	(350,409)
Repayments of hire purchase obligations	(710,753)	(256,842)
New term loans	3,078,056	1,984,428
Proceeds of issue of shares to minority shareholder of subsidiary company	-	392,813
Government grant	467,858	-
Net cash flows from financing activities	2,057,171	1,769,990
Net change in cash and cash equivalent	176,728	(292,420)
Cash and cash equivalents at the beginning	360,440	652,860
Cash and cash equivalents at the end (Note 27)	537,168	360,440

During the year, the group acquired property, plant and equipment with an aggregate cost of \$5,883,632 (2004: \$8,418,709) of which \$1,791,294 (2004: \$937,105) was acquired by means of finance leases. Furthermore, on the purchases of subsidiaries in year 2004, the group acquired \$205,002 of property, plant and equipment which are financed by finance leases. Cash payments of \$4,092,338 (2004: \$7,481,604) was made to purchase property, plant and equipment during the current financial year.

The accompanying notes on pages 9 to 34 form an integral part of the financial statements

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES

(Company Registration No: 199606464C)

(Incorporated in the Republic of Singapore)

NOTES TO FINANCIAL STATEMENTS – DECEMBER 31, 2005

1. GENERAL

The company is incorporated in the Republic of Singapore with its principal place of business and registered office at No. 156A Gul Circle, Singapore 629614. The financial statements are expressed in Singapore dollars, which is its functional currency.

The principal activities of the company are the provision of surface metamorphosis technology using thermal spray coating processes and a series of complementary processes including mechanical and chemical engineering works.

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

There have been no significant changes in the nature of these activities during the financial year.

These financial statements for the year ended December 31, 2005 were authorised for issue by the Board of directors on March 31, 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) BASIS OF ACCOUNTING

The financial statements are prepared in accordance with the historical cost convention, and are drawn up in accordance with the provisions of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards ("FRS").

In the current financial year, 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 that are relevant to its operations and effective for annual periods beginning on or after January 1, 2005. The adoption of these new and revised FRSs and INT FRSs has no material impact on the financial statements. The directors anticipate that the adoption of FRSs and INT FRSs and amendments to FRSs and INT FRSs that were issued at the date of authorisation of these financial statements but not yet effective until future periods will not have a material impact on the financial statements of the group. The directors anticipate that the adoption of these FRSs and INT FRSs in future periods will have no material impact on the financial statements of the group.

b) BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the company 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 Singapore dollars 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.

Investment in associated companies of is accounted for in the consolidated financial statements using the equity method. The group's share of the results of associates companies is based on the latest available audited financial statements and reflected in the consolidated profit and loss account. The group's share of post-acquisition results and reserves of associate companies is reflected in the book value of the investments in the consolidated balance sheet.

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

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES

(Company Registration No: 199606464C)

(Incorporated in the Republic of Singapore)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

c) GOODWILL ON CONSOLIDATION

i) GOODWILL

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.

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.

Goodwill arising from an acquisition is included with 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.

ii) NEGATIVE GOODWILL

Negative goodwill represents the excess of the 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 January 1, 2005, negative goodwill was released to profit and loss accounts based on an analysis of the circumstances from which the balance resulted. To the extent that the negative goodwill was attributable to losses or expenses anticipated at the date of acquisition, it was released to profit and loss accounts in the period in which those losses or expenses arise. The remaining negative goodwill was 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 was recognised as income immediately.

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

d) INVESTMENTS

i) SUBSIDIARY COMPANIES

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

In the company's financial statements, shares in the subsidiary companies are stated at cost and provision is made for impairment in value, if any.

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES

(Company Registration No: 199606464C)

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

ii) ASSOCIATED COMPANY

An associated company is defined as a company, not being a subsidiary, in which the 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.

The group's share of the results of the associated company is included in the consolidated profit and loss accounts and the share of post-acquisition reserves is included in the investments in the consolidated balance sheet.

In the company's financial statements, shares in associated company are stated at cost and provision is made for impairment in value, if any.

e) 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 factory	- 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 said assets.

Depreciation is not provided on freehold land.

f) REVENUE RECOGNITION

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

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

g) INVENTORIES

Inventories, primarily consumables and materials' 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 the cost of materials, direct labour and attributable production overheads based on a normal level of activity.

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

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES

(Company Registration No: 199606464C)

(Incorporated in the Republic of Singapore)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

h) TAXATION

Income tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the profit and loss accounts 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 group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted in countries where the subsidiaries 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 based 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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 profit or loss, 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.

i) FOREIGN CURRENCIES

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 Singapore dollars at exchange rates ruling at the balance sheet date. All exchange differences arising from conversion are included in the profit and loss accounts.

j) INTANGIBLE ASSETS

Costs relating to intangible assets, which are acquired, are capitalised, less any accumulated impairment loss, and amortised on a straight-line basis over their 5-year useful life.

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES

(Company Registration No: 199606464C)

(Incorporated in the Republic of Singapore)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

k) 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.

l) TRADE RECEIVABLES

Trade receivables and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowance for estimated irrecoverable amounts are recognised in the profit and loss accounts when there is objective evidence that the assets is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

m) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank 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.

n) TRADE AND OTHER PAYABLES

Trade and other payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

o) EMPLOYEE BENEFITS

i) Pension and contributions

The company makes contributions to Central Provident Fund Scheme in Singapore and the Employee 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 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.

p) IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS

At each balance sheet date, the company and group review the carrying amounts of their tangible and intangible assets to determine whether there is any indication that those assets have suffered on 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.

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES

(Company Registration No: 199606464C)

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

q) PROVISIONS

Provisions are recognised when the 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.

r) LEASES

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the lessee. All other leases are classified as operating leases.

Assets held under finance lease are recognised as assets of the company at their fair value determined at the date of inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit and loss account.

Rental payables under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

s) DEFERRED INCOME AND GOVERNMENT GRANTS

Income-related grants are credited to the profit and loss accounts over the periods necessary to match them with the related expenditure.

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

t) EQUITY INSTRUMENTS

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the entity's accounting policies, which are described in Note 2 to the financial statements and key assumptions concerning the future, management is not aware of any judgments that will have a significant effect on the amounts recognised in the financial statements or that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4. FINANCIAL RISKS AND MANAGEMENT

The main financial risks arising from the 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:-

a) INTEREST RATE RISK

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

Information relating to the group's interest rate exposure is disclosed in Note 22 and 24 to the financial statements.

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES

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4. FINANCIAL RISKS AND MANAGEMENT (cont'd)

b) CREDIT RISK

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

The 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 group's maximum exposure to credit risks.

c) 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.

d) FOREIGN EXCHANGE RISK

Currently, the 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 group reviews its foreign exchange exposure periodically to ensure it is kept at an acceptable level.

e) FAIR VALUE

The carrying amounts of cash and cash equivalents, trade and other current receivables and payables, provision and 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.

5. TURNOVER

Turnover represents the invoiced value of goods supplied and services rendered, less discounts.

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	\$	\$	\$	\$
Rendering of services	25,644,877	21,707,169	21,008,703	19,205,385
Sales of goods	2,410,878	441,099	2,370,978	441,099
	<u>28,055,755</u>	<u>22,148,268</u>	<u>23,379,681</u>	<u>19,646,484</u>

6. FINANCE EXPENSES

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	\$	\$	\$	\$
Bank loans interest	261,619	137,795	221,578	110,607
Bank overdraft interest	54,384	13,021	54,380	7,439
Hire purchase interest	120,305	65,418	96,933	54,361
	<u>436,308</u>	<u>216,234</u>	<u>372,891</u>	<u>172,407</u>

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES
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7. OTHER OPERATING INCOME

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	\$	\$	\$	\$
Gain on disposal of property, plant and equipment	73,285	-	73,285	-
Government grant	383,927	-	383,927	-
Interest income	12,956	570	7,414	142
Miscellaneous income	43,400	39,466	43,809	24,656
Rental income	58,300	114,220	58,300	114,220
	<u>571,868</u>	<u>154,256</u>	<u>566,735</u>	<u>139,018</u>

8. TAXATION EXPENSE

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	\$	\$	\$	\$
Tax on current year's profit	678,028	505,326	636,588	447,241
Under provision in prior years	92,088	-	88,767	-
Deferred tax:				
- Current	220,887	240,751	50,000	189,298
- Over provision in prior years	(100,160)			
Share of taxation of associate	-	25,841	-	-
	<u>890,843</u>	<u>771,918</u>	<u>775,355</u>	<u>636,539</u>

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES

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8. TAXATION EXPENSE (cont'd)

The taxation charged for the financial year differed from that applied with the statutory rate of 20% (2004: 20%) to profit before taxation as a result of the following differences:

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	\$	\$	\$	\$
Profit before taxation	4,441,192	3,367,050	3,890,754	3,165,305
Tax calculated at Singapore tax rate of 20% (2004 : 20%)	882,238	673,410	778,151	633,061
Tax calculated at non-Singapore tax rate	30,337	16,142	-	-
Non-(taxable) deductible expenses	(2,601)	109,479	(81,063)	64,067
(Over) Under provision in prior years	(8,072)	-	88,767	-
Change in tax rate	-	(64,434)	-	(64,434)
Singapore stepped income exemption	(10,500)	(10,500)	(10,500)	(10,500)
Others	(559)	47,821	-	14,345
	<u>890,843</u>	<u>771,918</u>	<u>775,355</u>	<u>636,539</u>

9. PROFIT FOR THE YEAR

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	\$	\$	\$	\$
Profit for the year is stated after charging or (crediting) :-				
Amortisation of intangible assets	70,000	70,000	70,000	70,000
Amortisation of goodwill	-	4,764	-	-
Amortisation of negative goodwill	-	(15,194)	-	-
Depreciation of property, plant and equipment	2,372,194	1,615,950	1,786,902	1,294,634
Directors' remuneration	495,367	458,000	495,367	458,000
Government grants	(383,927)	-	(383,927)	-
Net foreign exchange (gains)/losses	(2,084)	5,034	(22,722)	(6,959)
Staff costs (including directors' remuneration)	<u>7,903,700</u>	<u>5,877,679</u>	<u>6,658,977</u>	<u>5,320,391</u>

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES

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9. PROFIT FOR THE YEAR (cont'd)

COMPENSATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

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

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	\$	\$	\$	\$
Short-term benefits	1,130,069	991,594	1,019,070	891,950
Post-employment benefits	71,321	73,075	60,630	63,877
	<u>1,201,390</u>	<u>1,064,669</u>	<u>1,079,700</u>	<u>955,827</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.

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES
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10. PROPERTY, PLANT AND EQUIPMENT

The Group Cost :-	Leasehold	Freehold	Freehold	Freehold	Factory	Plant and	Motor	Office	Total
	Factory	Land	Building	Renovation	Machinery	Vehicles	Equipment		
	\$	\$	\$	\$	\$	\$	\$	\$	\$
As at January 1, 2004	3,260,000	-	-	1,474,078	6,626,132	540,904	263,458	12,164,572	
Acquisition of subsidiaries	-	830,750	379,015	351,290	1,550,487	95,298	101,919	3,308,759	
Additions	-	-	-	654,306	7,087,179	461,027	216,181	8,418,693	
Disposals	-	-	-	-	-	-	(14,545)	(14,545)	
Translation difference	-	(29,064)	(13,260)	(20,159)	(163,114)	(6,751)	(6,249)	(238,597)	
As at December 31, 2004	3,260,000	801,686	365,755	2,459,515	15,100,684	1,090,478	560,764	23,638,882	
Additions	3,355,583	-	-	500,167	1,613,364	169,296	245,222	5,883,632	
Disposals	-	-	-	-	-	(210,854)	-	(210,854)	
Translation difference	-	32,231	14,705	23,124	198,735	8,545	7,756	285,096	
As at December 31, 2005	6,615,583	833,917	380,460	2,982,806	16,912,783	1,057,465	813,742	29,596,756	
Accumulated depreciation :-									
As at January 1, 2004	437,685	-	-	152,770	2,295,617	208,933	179,858	3,274,863	
Acquisition of subsidiaries	-	-	13,629	16,432	77,574	9,149	18,871	135,655	
Charge for the year	181,111	-	1,527	129,357	1,017,208	192,861	93,886	1,615,950	
Disposals of subsidiaries	-	-	-	-	-	-	(8,971)	(8,971)	
Translation difference	-	-	(526)	(1,935)	(11,155)	(851)	(1,819)	(16,286)	
As at December 31, 2004	618,796	-	14,630	296,624	3,379,244	410,092	281,825	5,001,211	

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES
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10. PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Leasehold Factory	Freehold Land	Freehold Building	Factory Renovation	Plant and Machinery	Motor Vehicles	Office Equipment and Furniture	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Charge for the year	295,759	-	7,468	189,025	1,513,820	194,506	171,616	2,372,194
Disposals	-	-	-	-	-	(175,795)	-	(175,795)
Translation difference	-	-	729	3,318	23,438	1,630	3,276	32,391
As at December 31, 2005	914,555	-	22,827	488,967	4,916,502	430,433	456,717	7,230,001
Carrying amount :-								
As at December 31, 2005	5,701,028	833,917	357,633	2,493,839	11,996,281	627,032	357,025	22,366,755
As at December 31, 2004	2,641,204	801,686	351,125	2,162,891	11,721,440	680,386	278,939	18,637,671

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES
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10. PROPERTY, PLANT AND EQUIPMENT (cont'd)

The Company Cost :-	Leasehold	Factory	Plant and	Motor	Office Equipment	Total
	Factory	Renovation	Machinery	Vehicles	and Furniture	
	\$	\$	\$	\$	\$	\$
As at January 1, 2004	3,260,000	1,474,078	6,626,132	540,904	248,913	12,150,027
Additions	-	505,398	4,580,423	372,129	169,779	5,627,729
As at December 31, 2004	3,260,000	1,979,476	11,206,555	913,033	418,692	17,777,756
Additions	3,355,583	403,531	656,069	113,988	183,761	4,712,932
Disposals	-	-	-	(210,854)	-	(210,854)
As at December 31, 2005	6,615,583	2,383,007	11,862,624	816,167	602,453	22,279,834
Accumulated depreciation :-						
As at January 1, 2004	437,685	152,770	2,295,617	208,933	170,888	3,265,893
Charge for the year	181,111	94,875	776,137	176,530	65,981	1,294,634
As at December 31, 2004	618,796	247,645	3,071,754	385,463	236,869	4,560,527
Charge for the year	295,759	135,502	1,074,593	162,793	118,255	1,786,902
Disposals	-	-	-	(175,795)	-	(175,795)
As at December 31, 2005	914,555	383,147	4,146,347	372,461	355,124	6,171,634
Carrying amount:-						
As at December 31, 2005	5,701,028	1,999,860	7,716,277	443,706	247,329	16,108,200
As at December 31, 2004	2,641,204	1,731,831	8,134,801	527,570	181,823	13,217,229

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)**FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES**
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*(Incorporated in the Republic of Singapore)***10. PROPERTY, PLANT AND EQUIPMENT (cont'd)**

Plant and machinery costs includes \$854,446 (2004: \$853,287) and \$824,457 (2004: \$824,457) of equipment used in the group and company's research and development facilities and assets in progress of \$54,288 (2004: \$2,653,329) and \$26,708 (2004: \$2,631,952) for the group and company respectively.

Plant and machinery, motor vehicles and office equipment and furniture with carrying amount of \$2,819,473 (2004: \$1,317,434), \$597,642 (2004: \$648,085); and \$44,709 (2004: \$49,226) respectively, for the group are held under finance leases.

Plant and machinery, motor vehicles and office equipment and furniture with carrying amount of \$1,938,234 (2004: \$1,032,874); \$443,703 (2004: \$527,567); and \$44,709 (2004: \$49,226) respectively, for the company are held under finance leases.

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES
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11. SUBSIDIARY COMPANIES

	THE COMPANY	
	2005	2004
	\$	\$
Unquoted shares, at cost	3,358,488	3,358,488
Advances to subsidiary	1,512,336	-
	<u>4,870,824</u>	<u>3,358,488</u>

The advances to subsidiary are unsecured, interest-free and expected to be capitalised within the next financial year.

The details of the subsidiary companies as at December 31, 2005 and December 31, 2004 are as follows:-

Name of Company	Principal Activities	Equity Held		Cost of Investment	
		2005	2004	2005	2004
		%	%	\$	\$
Place of Incorporation/Business - Philippines					
Frontken Philippines Inc	Provision of surface metamorphosis technology using thermal spray coating processes including mechanical and chemical engineering works	99	99	852,665	852,665
Place of Incorporation/Business - Malaysia					
Frontken Malaysia Sdn Bhd and its subsidiary company:	-ditto-	100	100	2,505,823	2,505,823
Frontken-AMT Engineering Sdn Bhd	-ditto-	58	58	-	-
				<u>3,358,488</u>	<u>3,358,488</u>

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES

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12. ASSOCIATED COMPANY

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	\$	\$	\$	\$
Unquoted shares, at cost	344,163	344,163	344,163	344,163
Share of post acquisition results	(10,378)	(13,172)	-	-
	<u>333,785</u>	<u>330,991</u>	<u>344,163</u>	<u>344,163</u>

The details of the associated company as at December 31, 2005 and December 31, 2004 are as follows:

Name of Company	Principal Activities	Equity Held		Cost of Investment	
		2005	2004	2005	2004
		%	%	\$	\$
Place of Incorporation/Business – Thailand					
Frontken Thailand Co Ltd	Provision of surface metamorphosis technology using thermal spray coating processes including mechanical and chemical engineering works	<u>39</u>	<u>39</u>	<u>344,163</u>	<u>344,163</u>

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

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13. INTANGIBLE ASSET

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	\$	\$	\$	\$
License fees, at cost	350,000	350,000	350,000	350,000
Accumulated amortisation				
Balance at beginning of year	87,500	17,500	87,500	17,500
Charge to profit and loss	70,000	70,000	70,000	70,000
Balance at end of year	157,500	87,500	157,500	87,500
	192,500	262,500	192,500	262,500

14. NEGATIVE GOODWILL

	THE GROUP	
	2005	2004
	\$	\$
At beginning of year	86,099	-
Arising on acquisition of subsidiaries (Note 28b)	-	101,293
Transfer to profit and loss	-	(15,194)
Transfer to revenue reserves	(86,099)	
At end of year	-	86,099

Release of negative goodwill of S\$Nil (2004 : S\$15,194) is included under other operating income.

15. INVENTORIES

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	\$	\$	\$	\$
Consumables	713,437	426,870	476,328	254,839
Trading stocks	-	89,000	-	89,000
Work-in-progress	796,387	-	772,182	-
	1,509,824	515,870	1,248,510	343,839

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

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16. TRADE RECEIVABLES

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	\$	\$	\$	\$
Outside parties	9,059,654	5,288,581	6,397,358	4,417,285
Less : allowance for doubtful debts	(120,000)	(120,000)	(120,000)	(120,000)
	8,939,654	5,168,581	6,277,358	4,297,285
Related party	76,308	-	76,308	441,286
Associate (Note 12)	96,492	-	96,492	-
Subsidiaries (Note 11)	-	-	1,604,480	-
	9,112,454	5,168,581	8,054,638	4,738,571

Amounts due from related party, associate and subsidiaries are unsecured, interest free and repayable on demand. Related party is a company where directors of this company have financial or equity interests.

The group's and company's trade receivables that are not denominated in the functional currencies of the respective entities are as follows:

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	\$	\$	\$	\$
United States dollars	629,742	274,359	629,742	274,359
Malaysia Ringgit	46,042	75,729	46,042	75,729
Euros	36,768	38,603	36,768	38,603

17. OTHER RECEIVABLES

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	\$	\$	\$	\$
Deposits	361,269	571,698	94,570	519,555
Prepayments	94,224	134,688	40,379	50,602
Other debtors	551,680	133,615	113,459	127,016
	1,007,173	840,001	248,408	697,173
Related party	-	2,841	-	-
Associate (Note 12)	61,589	61,589	61,589	61,589
Subsidiaries (Note 11)	-	-	335,116	1,319,970
	1,068,762	904,431	645,113	2,078,732

Amounts due from related party, associate and subsidiaries are unsecured, interest free and repayable on demand. Related party is a company where directors of this company have financial or equity interests.

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES

*(Company Registration No: 199606464C)
(Incorporated in the Republic of Singapore)*

18. CASH AT BANK AND ON HAND

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	\$	\$	\$	\$
Cash at bank	2,089,602	943,242	1,378,641	395,507
Cash on hand	11,291	12,798	3,863	3,000
	<u>2,100,893</u>	<u>956,040</u>	<u>1,382,504</u>	<u>398,507</u>

The group's and company's cash at bank and on hand that are not denominated in the functional currencies of the respective entities are as follows:

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	\$	\$	\$	\$
United States dollars	<u>1,098,446</u>	<u>261,328</u>	<u>1,098,446</u>	<u>261,328</u>

19. TRADE PAYABLES

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	\$	\$	\$	\$
Outside parties	3,453,122	1,380,230	2,771,621	1,166,377
Related party	50,389	138,469	-	138,469
Subsidiaries (Note 11)	-	-	-	206,511
	<u>3,503,511</u>	<u>1,518,699</u>	<u>2,771,621</u>	<u>1,511,357</u>

Amounts due to related party, associate and subsidiaries are unsecured, interest free and repayable on demand. Related party is a company where directors of this company have financial or equity interests.

The group's and company's trade payables that are not denominated in the functional currencies of the respective entities are as follows:

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	\$	\$	\$	\$
United States dollars	1,093,614	112,587	1,018,751	96,059
Singapore dollars	42,290	8,480	-	-
Malaysia Ringgit	4,515	203,259	4,515	203,259
Euros	16,347	-	11,610	-
Thai Baht	-	1,112	-	1,112
	<u>1,156,766</u>	<u>324,438</u>	<u>1,034,876</u>	<u>300,430</u>

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES
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20. OTHER PAYABLES

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	\$	\$	\$	\$
Due to state pension funds	121,700	80,680	104,252	80,680
Other creditors	1,661,006	2,464,971	1,270,559	2,142,771
	<u>1,782,706</u>	<u>2,545,651</u>	<u>1,374,811</u>	<u>2,223,451</u>

The group's and company's other payables that are not denominated in the functional currencies of the respective entities are as follows:

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	\$	\$	\$	\$
United States dollars	-	63,395	-	63,395
Singapore dollars	-	134,828	-	-
Malaysia Ringgit	-	902	-	902
Euros	-	2,206	-	2,206
	<u>-</u>	<u>199,329</u>	<u>-</u>	<u>126,593</u>

21. AMOUNTS DUE TO DIRECTORS

Amounts due to directors were non-trade in nature, unsecured, interest-free and paid during the financial year.

22. BANK BORROWINGS, SECURED

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	\$	\$	\$	\$
Bank overdraft	1,563,725	595,600	1,563,725	595,600
Bank loans	7,056,136	4,756,070	6,430,650	4,088,466
	<u>8,619,861</u>	<u>5,351,670</u>	<u>7,994,375</u>	<u>4,684,066</u>

The borrowings are repayable as follows:

On demand or within one year	2,457,930	1,081,562	2,385,777	1,014,720
In the second year	906,141	472,844	828,532	402,225
In the third year	954,626	462,643	867,114	387,960
In the fourth year	995,843	488,405	907,520	404,773
After five years	3,305,321	2,846,216	3,005,432	2,474,388
	<u>8,619,861</u>	<u>5,351,670</u>	<u>7,994,375</u>	<u>4,684,066</u>
Less : Amounts due for settlement within 12 months (shown under current liabilities)	(2,457,930)	(1,081,562)	(2,385,777)	(1,014,720)
Amounts due after 12 months	<u>6,161,931</u>	<u>4,270,108</u>	<u>5,608,598</u>	<u>3,669,346</u>

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES
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22. BANK BORROWINGS, SECURED (cont'd)

The Company

The bank borrowing of the company are secured by means of a charge on the company's leasehold factories located at 156A Gul Circle Singapore 629614 and 15 Gul Drive Singapore 629466 with a net book value of \$2,460,093 (2004: \$2,641,204) and \$3,240,934 (2004: \$ Nil) respectively. The bank borrowings are jointly and severally guaranteed by the directors of the company

The bank borrowings of the company are denominated in Singapore dollars.

(i) Bank overdraft is repayable on demand. The average effective interest rate on bank overdraft is approximately 5% (2004: 5%) per annum.

(ii) Bank loans are arranged at floating rates, thus exposing the group to cash flow interest rate risk.

The company has four principal bank loans:

- a) a loan of \$1,894,735 (2004: \$2,096,441). The loan was raised on July 13, 2001. Repayments commenced on August 2001 and will continue until July 2013. The loan carries annual interests ranging from 2.65% to 3.50% (2004: 2.65% to 5.00%).
- b) a loan of \$1,751,998 (2004: \$1,926,434). The loan was raised on June 16, 2004. Repayments commenced on August 2004 and will continue until June 2014. The loan carries annual interests ranging from 2.65% to 3.50% (2004: 2.65%).
- c) a loan of \$1,427,433 (2004: \$Nil). The loan was raised on August 17, 2004. Repayments commenced on March 2005 and will continue until February 2010. The loan carries annual interests ranging from 2.65% to 3.50% (2004: Nil%).
- d) a loan of \$1,324,351 (2004: \$Nil). The loan was raised on November 1, 2004. Repayments commenced on May 2005 and will continue until April 2017. The loan carries annual interests ranging from 2.65% to 3.50% (2004: Nil%).

The Group

In addition to what has been mentioned above, a subsidiary company has bank loan of \$625,487 (2004: \$667,604) which is secured by means of a charge over the freehold land and factory building of the subsidiary company with a net book value of \$1,191,549 (2004: \$1,152,790). The bank loan is jointly and severally guaranteed by the directors of the subsidiary company and corporate guaranteed by its immediate holding company. It bears interest at rates ranging from 3.95% to 7.25% (2004: 3.95% to 6.40%) and repayable in June 2013. The said loan is denominated in Malaysian Ringgit.

At December 31, 2005, the group and company had available \$2,718,014 (2004: \$2,575,600) and \$2,536,275 (2004: \$2,575,600) respectively of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES
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23. DEFERRED INCOME (cont'd)

This represents asset-related government grants and recognised in the profit and loss accounts over the useful lives of the related assets.

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	\$	\$	\$	\$
Deferred income	133,876	-	133,876	-
To be transferred to profit and loss accounts in the financial year	(49,945)	-	(49,945)	-
	83,931	-	83,931	-
Less: To be transferred to profit and loss accounts within one year	(28,285)	-	(28,285)	-
	55,646	-	55,646	-

24. HIRE PURCHASE CREDITORS

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	\$	\$	\$	\$
Minimum lease payments payable:-				
Within one year	956,803	630,765	677,479	508,258
Between two to five years	1,985,040	1,169,905	1,365,544	952,298
More than five years	95,583	123,627	90,379	107,399
	3,037,426	1,924,297	2,133,402	1,567,955
Less finance charges allocated to future periods	(302,877)	(270,289)	(166,433)	(210,879)
Present value of finance leases	2,734,549	1,654,008	1,966,969	1,357,076
Analysis of present value of finance leases payable:-				
Within one year	865,925	552,479	628,073	448,806
Between two to five years	1,780,768	1,003,309	1,266,724	820,253
More than five years	87,856	98,220	72,172	88,017
More than one year	1,868,624	1,101,529	1,338,896	908,270
	2,734,549	1,654,008	1,966,969	1,357,076

It is the group's policy to lease certain of its plant and equipment under finance leases. The lease term ranges from 2 years to 10 years. For the year ended December 31, 2005, the hire purchase interests rate between 2.30% to 9.15% (2004: 2.30% to 5.5%) and 2.30% to 5.01% (2004: 2.30% to 5.01%) per annum are levied on the above hire purchase agreements for the group and the company respectively. Interest rates are fixed at the contract date, and thus expose the group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES

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24. HIRE PURCHASE CREDITORS (cont'd)

All lease obligations are denominated in the functional currencies of the respective entities.

The fair value of the group's lease obligations approximates their carrying amount. The group's obligations under finance leases are secured by the lessors' title to the leased assets.

25. DEFERRED TAX LIABILITIES

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	\$	\$	\$	\$
Deferred tax liabilities:-				
Balance at the beginning	1,038,491	730,000	919,298	730,000
Translation differences	6,129	40,512	-	-
Acquisition of subsidiary	-	27,228	-	-
Charge for the year	120,727	240,751	50,000	189,298
Balance at the end	1,165,347	1,038,491	969,298	919,298
Deferred tax liabilities are attributable to the following items:-				
Accelerated tax depreciation on property, plant and equipment	1,241,468	1,095,213	1,017,219	976,020
Unabsorbed capital allowance	(28,200)	-	-	-
Others	(47,921)	(56,722)	(47,921)	(56,722)
	1,165,347	1,038,491	969,298	919,298

The unabsorbed capital allowances are subject to agreement with tax authorities.

26. SHARE CAPITAL

	THE GROUP AND COMPANY	
	2005	2004
	\$	\$
Authorised share capital of \$1 each : 30,000,000 ordinary shares	30,000,000	30,000,000
Issued and fully paid-up share capital of \$1 each: At beginning of year	9,093,984	3,050,002
Capitalisation of retained earnings and amounts due to shareholders and directors	-	6,043,982
At end of year	9,093,984	9,093,984

The paid-up share capital was increased in 2004 from 3,050,002 shares of \$1/= each to 9,093,984 shares of \$1/= each by way of issue of 6,043,982 new shares of \$1/= each, at par, as follows:

- 2,700,000 shares of \$1/= each as bonus shares by way of the capitalisation of revenue reserves; and
- 3,343,982 shares of \$1/= each as part payment of amounts due to the company's directors and shareholders.

These shares shall rank pari-passu with all other existing shares.

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

FRONTKEN (SINGAPORE) PTE LTD AND ITS SUBSIDIARY COMPANIES

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27. CASH AND CASH EQUIVALENTS

	THE GROUP	
	2005	2004
	\$	\$
Cash and cash equivalents consist of:		
Cash at bank	2,089,602	943,242
Cash on hand	11,291	12,798
Bank overdrafts	2,100,893 (1,563,725)	956,040 (595,600)
	<u>537,168</u>	<u>360,440</u>

28. ACQUISITION / DISPOSAL OF SUBSIDIARY COMPANIES

a) DISPOSAL OF SUBSIDIARY COMPANIES

	THE GROUP	
	2005	2004
	\$	\$
Non-current assets	-	1,772,304
Net current liabilities	-	(1,333,478)
Minority interest	-	(77,838)
Group's share of net assets disposed	-	360,988
Goodwill unamortised	-	(19,740)
Loss on disposal of subsidiaries	-	(163,223)
Proceeds from disposal of subsidiaries	-	178,025
Less: Cash outflow from disposal of subsidiaries	-	(163,896)
Net cash disposed	<u>-</u>	<u>14,129</u>

b) ACQUISITION OF SUBSIDIARY COMPANIES

	THE GROUP	
	2005	2004
	\$	\$
Non-current assets	-	3,209,221
Non-current liabilities	-	(951,057)
Net current liabilities	-	(1,889,682)
Net assets recognised previously as an associate	-	(109,946)
Group's share of net assets acquired	-	258,536
Negative goodwill arising (Note 14)	-	(101,293)
Payments for acquisition of subsidiaries	-	157,243
Less: Cash outflow from acquisition of subsidiaries – bank overdraft	-	66,070
Net cash acquired	<u>-</u>	<u>223,313</u>

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

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29. INTRA-GROUP AND RELATED PARTIES TRANSACTIONS

The following were significant intra-group and related parties transactions during the financial year:-

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	\$	\$	\$	\$
Purchase of property	1,850,000	370,000	1,850,000	370,000
Disposal of investment	-	(1,000,000)	-	(1,000,000)
Rental income	-	(11,100)	(16,869)	(11,100)
Purchases of goods	550,109	563,113	610,996	1,480,070
Sales of goods	(380,642)	(16,823)	(2,029,363)	(798,550)

30. COMMITMENTS

- a) The group and company have committed and contracted for the purchase of a property, plant and equipment of approximately \$550,933 (2004: \$1,480,000) and \$44,685 (2004: \$1,480,000) respectively. The group and company has committed but not contracted for the purchase of a property, plant and equipment of approximately \$Nil (2004 : \$761,641).
- b) Rental and lease expenses for all operating leases during the year amounted to \$3,169,212 (2004 : \$2,091,322) for the group and \$3,103,316 (2004 : \$1,984,796) for the company.

The company'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:-

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	\$	\$	\$	\$
Amounts payable:-				
Within one year	260,594	193,421	203,752	141,771
Between two and five years	824,065	621,961	815,011	567,085
After five years	2,084,553	1,275,940	2,084,553	1,275,940
	3,169,212	2,091,322	3,103,316	1,984,796

31. CONTINGENT LIABILITIES

The company has the following contingent liabilities:-

- a) corporate guarantee to a financial institution for leasing of equipment worth \$788,908 (2004 : \$157,791) extended to a subsidiary company; and
- b) corporate guarantee to a bank for a bank loan facility of \$625,486 (2004 : \$667,604) extended to a subsidiary company.

12. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2004 AND 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORTS THEREON (Cont'd)

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32. EVENTS AFTER THE BALANCE SHEET DATE

On January 3, 2006, a subsidiary 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 \$700,000.

On March 7, 2006, a subsidiary accepted the letter of offer for the Industrial Hire Purchase-i Facility. This equipment financing amounting to approximately \$2,500,000 is under a corporate guarantee by the company.

On March 31, 2006, the board of directors approved the transfer of 9,093,984 shares of the company to Frontken Corporation Berhad. As a result, the company became a wholly-owned subsidiary of Frontken Corporation Berhad.

33. SIGNIFICANT CORPORATE EVENT

As an integral part of the proposed listing of and quotation for the entire issued and paid-up capital of Frontken Corporation Berhad ("FCB"), a company incorporated in Malaysia, on the MESDAQ Market of Bursa Malaysia Securities Berhad ("Bursa Malaysia"), the shareholders of the company entered into a conditional share sale agreement with FCB on January 25, 2005 for disposal of the entire shareholding in the company to FCB. Upon completion of the said proposed disposal, the company will become a wholly-owned subsidiary of FCB.

On 30 November 2005, the Securities Commission ("SC") in Malaysia has approved the abovementioned listing application, subject to FCB fulfilling certain requirements as outlined by the SC.

As of todate, approval for the abovementioned listing application has yet to be obtained from Bursa Malaysia.

34. RECLASSIFICATIONS AND COMPARATIVE FIGURES

Comparative figures have been adjusted to conform with the current year's presentation. The items were reclassified as follows:

	THE GROUP		THE COMPANY	
	Previously reported 2004	After reclassification 2004	Previously reported 2004	After reclassification 2004
	\$	\$	\$	\$
Current assets:				
Cash at bank and on hand	694,712	956,040	137,179	398,507
Current liabilities:				
Bank borrowings, secured	820,234	1,081,562	753,392	1,014,720