THREE-A RESOURCES BERHAD (481559-M)
(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements
31 December 2005

481559-M

THREE-A RESOURCES BERHAD
(Incorporated in Malaysia)

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THREE-A RESOURCES BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiary are disclosed in Note 4 to the financial statements.

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

RESULTS

	Group RM	Company RM
Net profit/(loss) for the year	4,839,445	(204,593)

There were no material transfers to or from reserves or provisions during the financial year except as disclosed in the statements of changes in equity.

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

DIVIDEND

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

ISSUE OF SHARES

During the financial year, the Company increased its issued and paid-up share capital from RM28,000,002 to RM35,000,003 by way of the issuance of 35,000,003 ordinary shares of RM0.20 each through a bonus issue of 1 new ordinary share for every 4 existing ordinary shares capitalised from the revaluation reserve of the Company. The new ordinary shares issued during the financial year rank pari-passu in all respects with the existing ordinary shares of the Company.

DIRECTORS

The directors of the Company in office since the date of the last report and at the date of this report are:

Dato' Mohd Nor Bin Abdul Wahid
Fang Chew Ham
Foong Chiew Fatt
Fong Chiew Hean
Fong Chu King @ Tong Chu King
Chew Eng Chai
Tan Chon Sing @ Tan Kim Tieng
Dato' Samsudin Bin Abu Hassan
Fang Siew Yee
Fang Siew Ping
Liew Kuo Shin
Khoo Wee Boon

DIRECTORS BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the directors might acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors as shown in Note 19 to the financial statements or the fixed salary of a full-time employee of the Company or its related corporation) by reason of a contract made by the Company or a related corporation with any director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest, except as disclosed in Note 24 to the financial statements.

DIRECTORS' INTERESTS

According to the register of directors' shareholdings, the interests of directors in office at the end of the financial year in shares in the Company during the financial year were as follows:

	Number of Ordinary Shares of RM0.20 each			
	At 1.1.2005	Bought	Sold	At 31.12.2005
Direct interest				
Fang Chew Ham	44,590,300	12,647,575	-	57,237,875
Foong Chiew Fatt	7,935,480	1,983,870	-	9,919,350
Fong Chiew Hean	7,935,480	1,983,870	-	9,919,350
Fong Chu King @ Tong Chu King	4,467,740	1,116,935	-	5,584,675
Dato' Mohd Nor Bin Abdul Wahid	4,545,000	1,136,250	-	5,681,250
Chew Eng Chai	90,000	22,500	-	112,500
Tan Chon Sing @ Tan Kim Tieng	660,000	165,000	-	825,000
Fang Siew Ping	50,000	12,500	-	62,500
Liew Kuo Shin	102,500	25,625	-	128,125

None of the other directors in office at the end of the financial year had any interest in shares in the Company or its related corporation during the financial year.

OTHER STATUTORY INFORMATION

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

(i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and

(ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

OTHER STATUTORY INFORMATION (CONTD.)

(b) At the date of this report, the directors are not aware of any circumstances which would render:

(i) the amount written off for bad debts or the amount of the provision for doubtful debts inadequate to any substantial extent in respect of these financial statements; and

(ii) the values attributed to current assets in the financial statements of the Group and of the Company misleading.

(c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

(d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.

(e) As at the date of this report, there does not exist:

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

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

(f) In the opinion of the directors:

(i) no contingent or other liabillity has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet their obligations as and when they fall due; and

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

AUDITORS

The auditors, Ernst & Young, have expressed their willingness to continue in office.

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

Dato' Mohd Nor Bin Abdul Wahid | Fang Chew Ham

Kuala Lumpur, Malaysia
17 April 2006

STATEMENT BY DIRECTORS
PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

We, Dato' Mohd Nor Bin Abdul Wahid and Fang Chew Ham, being two of the directors of Three-A Resources Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 9 to 39 are drawn up in accordance with applicable MASB Approved Accounting Standards in Malaysia and the provisions of the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2005 and of the results and the cash flows of the Group and of the Company for the year then ended.

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

Dato' Mohd Nor Bin Abdul Wahid   Fang Chew Ham

Kuala Lumpur, Malaysia
17 April 2006

STATUTORY DECLARATION
PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

I, Fang Chew Ham, being the director primarily responsible for the financial management of Three-A Resources Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 9 to 39 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by
the abovenamed Fang Chew Ham
at Kuala Lumpur in the Federal
Territory on   Fang Chew Ham

Before me,

481559-M

REPORT OF THE AUDITORS TO THE MEMBERS OF THREE-A RESOURCES BERHAD (Incorporated in Malaysia)

We have audited the accompanying financial statements set out on pages 9 to 39. These financial statements are the responsibility of the Company's directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with applicable Approved Standards on Auditing in Malaysia. Those 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 presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

(a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia so as to give a true and fair view of:

   (i) the financial position of the Group and of the Company as at 31 December 2005 and of the results and the cash flows of the Group and of the Company for the year then ended; and

   (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and

(b) the accounting and other records and the registers required by the Act to be kept by the Company and by its subsidiary have been properly kept in accordance with the provisions of the Act.

REPORT OF THE AUDITORS TO THE MEMBERS OF THREE-A RESOURCES BERHAD (CONTD.)
(Incorporated in Malaysia)

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

The auditors' report on the financial statements of the subsidiary was not subject to any qualification and did not include any comment required to be made under Section 174(3) of the Act.

Ernst & Young	See Huey Beng
AF: 0039	No. 1495/03/07(J)
Chartered Accountants	Partner

Kuala Lumpur, Malaysia
17 April 2006

THREE-A RESOURCES BERHAD
(Incorporated in Malaysia)

BALANCE SHEETS
AS AT 31 DECEMBER 2005

		Group		Company	
		2005	2004	2005	2004
	Note	RM	RM	RM	RM
NON-CURRENT ASSETS					
Property, plant and equipment	3	47,273,657	43,460,763	3,271	3,739
Investment in a subsidiary	4	-	-	33,897,326	33,897,326
Due from a subsidiary	5	-	-	8,070,307	8,284,439
Negative goodwill	6	(4,553,656)	(4,553,656)	-	-
		42,720,001	38,907,107	41,970,904	42,185,504
CURRENT ASSETS					
Inventories	7	14,734,562	7,528,371	-	-
Trade receivables	8	21,433,490	16,577,215	-	-
Other receivables	9	627,211	328,461	1,160	1,160
Tax recoverable		333,890	152,778	-	-
Cash and bank balances		1,338,433	477,846	472	582
		38,467,586	25,064,671	1,632	1,742
CURRENT LIABILITIES					
Short term borrowings	10	25,462,319	18,620,683	-	-
Trade payables	12	2,922,275	1,510,279	-	-
Other payables	13	2,105,310	2,115,118	77,173	26,298
		30,489,904	22,246,080	77,173	26,298
NET CURRENT ASSETS/ (LIABILITIES)		7,977,682	2,818,591	(75,541)	(24,556)
		50,697,683	41,725,698	41,895,363	42,160,948

THREE-A RESOURCES BERHAD
(Incorporated in Malaysia)

BALANCE SHEETS
AS AT 31 DECEMBER 2005 (CONTD.)

		Group		Company	
		2005	2004	2005	2004
	Note	RM	RM	RM	RM
FINANCED BY:					
SHARE CAPITAL AND RESERVES					
Share capital	14	35,000,003	28,000,002	35,000,003	28,000,002
Share premium	15	733,629	794,621	733,629	794,621
Revaluation reserve	16	-	-	6,797,325	13,797,326
Retained profits/ (Accumulated losses)		6,652,113	8,812,669	(635,594)	(431,001)
Shareholders' equity		42,385,745	37,607,292	41,895,363	42,160,948
NON-CURRENT LIABILITIES					
Long term borrowings	10	4,938,298	1,184,761	-	-
Deferred tax liabilities	17	3,373,640	2,933,645	-	-
		8,311,938	4,118,406	-	-
		50,697,683	41,725,698	41,895,363	42,160,948

The accompanying notes form an integral part of the financial statements.

THREE-A RESOURCES BERHAD
(Incorporated in Malaysia)

INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

		Group		Company	
		2005	2004	2005	2004
	Note	RM	RM	RM	RM
Revenue	18	70,785,504	60,594,712	-	-
Cost of sales		(54,737,400)	(44,866,276)	-	-
Gross profit		16,048,104	15,728,436	-	-
Other operating income		32,892	57,978	-	-
Administrative expenses		(5,720,233)	(5,538,423)	(204,593)	(209,035)
Other operating expenses		(3,513,006)	(3,040,711)	-	-
Profit/(Loss) from operations	19	6,847,757	7,207,280	(204,593)	(209,035)
Finance costs	21	(1,274,691)	(940,327)	-	-
Profit/(Loss) before taxation		5,573,066	6,266,953	(204,593)	(209,035)
Taxation	22	(733,621)	(1,822,000)	-	-
Net profit/(loss) for the year		4,839,445	4,444,953	(204,593)	(209,035)
Basic earnings per share (sen)	23	3.1	3.2		

The accompanying notes form an integral part of the financial statements.

THREE-A RESOURCES BERHAD
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STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2005

	Share capital RM	Share premium [1] RM	Retained profits [2] RM	Total RM
Group				
At 1 January 2004	28,000,002	794,621	4,367,716	33,162,339
Net profit for the year	-	-	4,444,953	4,444,953
At 31 December 2004	28,000,002	794,621	8,812,669	37,607,292
Net profit for the year	-	-	4,839,445	4,839,445
Expenses related to bonus issue	-	(60,992)	-	(60,992)
Capitalisation of retained profits for bonus issue	7,000,001	-	(7,000,001)	-
At 31 December 2005	35,000,003	733,629	6,652,113	42,385,745

THREE-A RESOURCES BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2005 (CONTD.)

	Note	Share capital RM	Share premium (1) RM	Revaluation reserve (1) RM	Accumulated losses RM	Total RM
Company						
At 1 January 2004		28,000,002	794,621	-	(221,966)	28,572,657
Net loss for the year		-	-	-	(209,035)	(209,035)
Surplus arising from revaluation of investment in a subsidiary	4	-	-	13,797,326	-	13,797,326
At 31 December 2004		28,000,002	794,621	13,797,326	(431,001)	42,160,948
Net loss for the year		-	-	-	(204,593)	(204,593)
Expenses related to bonus issue		-	(60,992)	-	-	(60,992)
Capitalisation of revaluation reserve for bonus issue	14	7,000,001	-	(7,000,001)	-	-
At 31 December 2005		35,000,003	733,629	6,797,325	(635,594)	41,895,363

Note
(1) Non-distributable
(2) Distributable

The accompanying notes form an integral part of the financial statements.

THREE-A RESOURCES BERHAD
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CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

		Group		Company	
		2005	2004	2005	2004
	Note	RM	RM	RM	RM
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit/(Loss) before taxation		5,573,066	6,266,953	(204,593)	(209,035)
Adjustments for:					
Depreciation of property, plant and equipment		2,297,964	2,060,657	468	468
Provision for doubtful debts		18,750	300,000	-	-
Doubtful debts recovered		(30,696)	(78,495)	-	-
Bad debts written off		2,084	22,453	-	-
Unrealised foreign exchange gains		(49,859)	(11,315)	-	-
Interest expense		1,014,218	728,039	-	-
Plant and machinery written off		-	170,867	-	-
Operating profit/(loss) before working capital changes		8,825,527	9,459,159	(204,125)	(208,567)
Working capital changes:					
Inventories		(7,206,191)	(3,866,314)	-	-
Receivables		(5,095,304)	(4,719,895)	-	-
Payables		1,402,188	(748,093)	50,875	(450)
Subsidiary		-	-	214,132	208,174
Cash (used in)/generated from operations		(2,073,780)	124,857	60,882	(843)
Interest paid		(1,014,218)	(728,039)	-	-
Income tax paid		(474,738)	(408,331)		-
Net cash (used in)/generated from operating activities		(3,562,736)	(1,011,513)	60,882	(843)
CASH FLOWS FROM INVESTING ACTIVITY					
Purchase of property, plant and equipment, representing net cash used in investing activity		(6,110,858)	(6,038,187)	-	-

THREE-A RESOURCES BERHAD
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CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005 (CONTD.)

		Group		Company	
		2005	2004	2005	2004
	Note	RM	RM	RM	RM
CASH FLOWS FROM FINANCING ACTIVITIES					
Drawdown/(Repayment) of bankers acceptances		19,235,491	(3,730,953)	-	-
Drawdown/(Repayment) of term loans		4,308,108	(197,462)	-	-
(Repayment)/Drawdown of currency trade financing		(11,500,398)	11,500,398	-	-
(Repayment)/Drawdown of revolving credit		(1,000,000)	1,000,000	-	-
Repayment of hire purchase financing		(55,000)	(60,000)	-	-
Payment of expenses arising from bonus issue		(60,992)	-	(60,992)	-
Net cash generated from/ (used in) financing activities		10,927,209	8,511,983	(60,992)	-
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		1,253,615	1,462,283	(110)	(843)
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR		44,128	(1,418,155)	582	1,425
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	(a)	1,297,743	44,128	472	582

THREE-A RESOURCES BERHAD
(Incorporated in Malaysia)

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005 (CONTD.)

NOTES TO CASH FLOW STATEMENTS

(a) Cash and cash equivalents comprise the following balance sheet amounts:

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Cash and bank balances	1,338,433	477,846	472	582
Bank overdrafts (Note 10)	(40,690)	(433,718)	-	-
	1,297,743	44,128	472	582

The accompanying notes form an integral part of the financial statements.

THREE-A RESOURCES BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2005

1. CORPORATE INFORMATION

The principal activity of the Company is investment holding. The principal activities of the subsidiary are disclosed in Note 4. There have been no significant changes in the nature of the principal activities during the financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Malaysian Exchange of Securities Dealing & Automated Quotation (MESDAQ) Market of Bursa Malaysia Securities Berhad. The registered office and the principal place of business of the Company and of the Group is located at AL 308, Lot 590 & Lot 4196, Jalan Industri, U19, Kampung Baru Seri Sungai Buloh, 47000 Selangor Darul Ehsan.

The Company has no employee as at the end of the financial year (2004: Nil) as it is managed by employees of the subsidiary. The subsidiary employed 96 (2004: 101) employees as at the end of the financial year.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 17 April 2006.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial statements of the Group and of the Company have been prepared under the historical cost convention except for the revaluation of investment in a subsidiary and comply with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia.

(b) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary. A subsidiary is a company in which the Company has a long term equity interest and where it retains the power to exercise control over the financial and operating policies of the subsidiary so as to obtain benefits therefrom.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(b) Basis of Consolidation (Contd.)

The subsidiary is consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of subsidiary acquired or disposed of during the year is included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. The assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition and these values are reflected in the consolidated balance sheet. The difference between the cost of an acquisition and the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition is included in the consolidated balance sheet as goodwill or negative goodwill arising on consolidation.

Intragroup transactions, balances and resulting unrealised gains are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Unrealised losses are eliminated on consolidation unless costs cannot be recovered.

The gain or loss on disposal of a subsidiary is the difference between the net disposal proceeds and the Group's share of its net assets together with any unamortised balance of goodwill and exchange differences which were not previously recognised in the consolidated income statement.

Minority interest is measured at the minorities' share of the post acquisition fair values of the identifiable assets and liabilities of the acquiree.

(c) Investment in a Subsidiary

Investment in subsidiary is stated at valuation less impairment losses. During the previous financial year, the Company revalued its investment in the subsidiary based on the net tangible assets of the said subsidiary.

Valuation is performed at regular intervals of at least once in every 5 years with additional valuations in the intervening years where conditions indicate that the carrying values of the revalued investment differs materially from the underlying net tangible asset values of the subsidiary.

Surplus arising on revaluation is credited to revaluation reserve. Any deficit arising from revaluation is charged against the revaluation reserve to the extent of the previous surplus held in the revaluation reserve for the subsidiary. In all other cases, a decrease in carrying amount is charged to income statement.

Upon the disposal of such investment, the difference between the net disposal proceeds and the carrying amount is recognised in the income statement and the unutilised portion of the related revaluation surplus is taken directly to retained profits.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(d) Property, Plant and Equipment and Depreciation

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

Long leasehold land with unexpired lease periods of more than 50 years are not amortised as the resulting depreciation charge and accumulated depreciation are not significant. Short leasehold land with unexpired lease periods of less than 50 years are amortised over the remaining period of the lease. Depreciation on capital work-in-progress will only commence when the assets constructed are ready for use.

Depreciation of other property, plant and equipment is provided for on a straight line basis to write off the cost of each asset to its residual value over the estimated useful life at the following annual rates:

Factory and office buildings	2%
Plant and machinery	5%
Tools and implements	10%
Furniture and fittings and equipment	10%
Renovations and electrical installations	10%
Motor vehicles	10%

Upon the disposal of an asset, the difference between the net disposal proceeds and the net carrying amount is recognised in the income statement.

(e) Finance Lease

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incident to ownership. All other leases are classified as operating leases.

Assets acquired by way of hire purchase or finance leases are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment losses. The corresponding liability is included in the balance sheet as borrowings. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the incremental borrowing rate is used.

Lease payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised as an expense in the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(e) Finance Lease (Contd.)

The depreciation policy for leased assets is consistent with that for depreciable property, plant and equipment as described in Note 2(d).

(f) Inventories

Inventories are stated at the lower of cost (determined on the first-in, first-out basis) and net realisable value. Cost of finished goods and work-in-progress includes direct materials, direct labour, other direct costs and appropriate production overheads. Net realisable value represents the estimated selling price less estimated costs to completion and estimated costs necessary to complete the sale.

(g) Provisions for Liabilities

Provisions for liabilities are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

(h) Employee Benefits

(i) Short term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contribution plans

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund (“EPF”). Such contributions are recognised as an expense in the income statement as incurred.

(i) Goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill is stated at cost and is not amortised.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(j) Income Tax

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

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill.

(k) Revenue Recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably.

(i) Sale of goods

Revenue relating to sale of goods is recognised net of returns and discounts upon acceptance by customers.

(ii) Interest income

Interest is recognised on a time proportion basis that reflects the effective yield on the asset.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(l) Cash and Cash Equivalents

For the purposes of the cash flow statements, cash and cash equivalents include cash on hand and at bank, deposits at call and short term highly liquid investments which have an insignificant risk of changes in value, net of outstanding bank overdrafts.

(m) Foreign Currencies

Transactions in foreign currencies are initially recorded in Ringgit Malaysia at rates of exchange ruling at the date of the transaction. At each balance sheet date, foreign currency monetary items are translated into Ringgit Malaysia at exchange rates ruling at that date, unless hedged by forward foreign contracts, in which case the rates specified in such contracts are used. Non-monetary items initially denominated in foreign currencies, which are carried at historical cost are translated using the historical rate as of the date of acquisition and non-monetary items which are carried at fair value are translated using the exchange rate that existed when the values were determined. All exchange rate differences are recognised in the income statement.

The principal exchange rates used for every unit of foreign currency ruling at the balance sheet date are as follows:

	2005 **RM**	**2004** **RM**
United States Dollar	3.78	3.80
Singapore Dollar	2.27	2.17

(n) Impairment of Assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication of impairment. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of net selling price and value in use, which is measured by reference to discounted future cash flows.

An impairment loss is recognised as an expense in the income statement immediately, unless the asset is carried at a revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of any unutilised previously recognised revaluation surplus for the same asset.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(o) Financial Instruments

Financial instruments are recognised in the balance sheet when the Group has become a party to the contractual provisions of the instrument.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, and gains and losses relating to a financial instrument classified as a liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

(i) Receivables

Receivables are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for doubtful debts based on a review of all outstanding amounts as at the balance sheet date.

(ii) Payables

Payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

(iii) Interest-bearing borrowings

Interest-bearing bank loans and overdrafts are recorded at the amount of proceeds received, net of transaction costs.

All borrowing costs are recognised as an expense in the income statement in the period in which they are incurred.

(iv) Equity instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

The transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

3. PROPERTY, PLANT AND EQUIPMENT

Group	Long leasehold land RM	Short leasehold land RM	Factory and office buildings RM	Plant and machinery, tools and implements RM	Furniture and fittings and equipment RM	Renovations and electrical installations RM	Motor vehicles RM	Capital work-in-progress RM	Total RM
Cost									
At 1 January 2005	5,279,432	500,000	12,767,673	26,375,287	1,771,998	946,515	1,628,264	5,005,327	54,274,496
Additions	1,180,000	-	1,288,523	1,990,673	33,959	96,345	-	1,521,358	6,110,858
Reclassification	-	-	3,014,456	991,395	-	-	-	(4,005,851)	-
At 31 December 2005	6,459,432	500,000	17,070,652	29,357,355	1,805,957	1,042,860	1,628,264	2,520,834	60,385,354
Accumulated Depreciation									
At 1 January 2005	302,703	82,001	1,283,264	7,332,746	540,380	474,984	797,655	-	10,813,733
Charge for the year	-	10,667	338,023	1,510,459	182,167	106,996	149,652	-	2,297,964
At 31 December 2005	302,703	92,668	1,621,287	8,843,205	722,547	581,980	947,307	-	13,111,697
Net Book Value									
At 31 December 2005	6,156,729	407,332	15,449,365	20,514,150	1,083,410	460,880	680,957	2,520,834	47,273,657
At 31 December 2004	4,976,729	417,999	11,484,409	19,042,541	1,231,618	471,531	830,609	5,005,327	43,460,763
Details at 1 January 2004									
Cost	5,279,432	500,000	11,631,155	25,083,690	1,664,033	930,050	1,377,484	1,944,044	48,409,888
Accumulated depreciation	302,703	71,334	1,029,667	5,989,709	366,197	372,270	623,908	-	8,755,788
Depreciation charge for 2004	-	10,667	256,069	1,343,277	174,183	102,714	173,747	-	2,060,657

3. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

Company	**Furniture and fittings 2005 RM**	**2004 RM**
Cost		
At 1 January/31 December	4,675	4,675
Accumulated Depreciation		
At 1 January	936	468
Charge for the year	468	468
At 31 December	1,404	936
Net Book Value		
At 31 December	3,271	3,739

(a) All property, plant and equipment are charged as securities for borrowings facilities (Note 10) obtained by the subsidiary.

(b) Included in property, plant and equipment of the Group as at balance sheet date were motor vehicles held under hire purchase with an aggregate net book value of RM209,316.

4. INVESTMENT IN A SUBSIDIARY

	Company 2005 RM	**2004 RM**
Unquoted investment - at valuation	33,897,326	33,897,326

Details of the subsidiary are as follows:

Name of Subsidiary	**Country of incorporation**	**Equity interest held 2005**	**2004**	**Principal activities**
San Soon Seng Food Industries Sdn. Bhd.	Malaysia	100%	100%	Manufacturing and selling of food and beverage ingredients

During the previous financial year, the Company revalued its investment in the subsidiary based on the net tangible assets of the said subsidiary. The directors consider that the change of basis of measurement from cost to revaluation gives a fairer presentation of the financial position of the Company.

5. DUE FROM A SUBSIDIARY

The amount due from a subsidiary is interest-free, unsecured and is not repayable within the foreseeable future.

6. NEGATIVE GOODWILL

	Group 2005 RM	Group 2004 RM
At 1 January/December	4,553,656	4,553,656

7. INVENTORIES

	Group 2005 RM	Group 2004 RM
At cost :		
Finished goods	2,453,594	1,699,035
Raw materials	11,865,073	5,367,181
Packing materials	415,895	462,155
	14,734,562	7,528,371

The cost of inventories recognised as an expense during the financial year amounted to RM49,437,132 (2004: RM44,324,306).

8. TRADE RECEIVABLES

	Group 2005 RM	Group 2004 RM
Trade receivables	22,228,508	17,384,179
Less: Provision for doubtful debts	(795,018)	(806,964)
	21,433,490	16,577,215

Included in trade receivables is an amount of RM136,522 (2004: RM166,952) due from Seong Chan Sauce & Foodstuff Sdn. Bhd., a company in which certain directors have financial interests.

8. TRADE RECEIVABLES (CONTD.)

The Group's normal trade credit term ranges from 30 to 150 days (2004: 30 to 150 days). Other credit terms are assessed and approved on a case-by-case basis.

The Group has no significant concentration of credit risk that may arise from exposures to a single debtor or to groups of debtors.

9. OTHER RECEIVABLES

	Group		Company	
	2005	2004	2005	2004
	RM	RM	RM	RM
Sundry receivables, deposits and prepayments	807,211	508,461	1,160	1,160
Less: Provision for doubtful debts	(180,000)	(180,000)	-	-
	627,211	328,461	1,160	1,160

10. BORROWINGS

	Group	
	2005	2004
	RM	RM
Short Term Borrowings		
Secured:		
Bank overdrafts	40,690	433,718
Bankers acceptances	24,449,281	5,213,790
Term loans	972,348	417,777
Revolving credits	-	1,000,000
Foreign currency trade financing	-	11,500,398
Hire purchase payables (Note 11)	-	55,000
	25,462,319	18,620,683
Long Term Borrowings		
Secured:		
Term loans	4,938,298	1,184,761

10. BORROWINGS (CONTD.)

	Group 2005 RM	Group 2004 RM
Total Borrowings		
Bank overdrafts	40,690	433,718
Bankers acceptances	24,449,281	5,213,790
Term loans	5,910,646	1,602,538
Revolving credits	-	1,000,000
Foreign currency trade financing	-	11,500,398
Hire purchase payables (Note 11)	-	55,000
	30,400,617	19,805,444
Maturity of borrowings (excluding hire purchase payables)		
Within one year	25,462,319	18,565,683
More than 1 year and less than 2 years	1,042,663	450,210
More than 2 years but less than 5 years	3,895,635	734,551
	30,400,617	19,750,444

The interest rates per annum at the balance sheet date for borrowings, excluding hire purchase payables, were as follows:

	Group 2005 %	Group 2004 %
Bank overdrafts	7.50 - 7.75	7.50
Bankers acceptances	3.50 - 4.70	3.93 - 5.50
Term loans	7.50 - 8.00	7.50
Foreign currency trade financing	3.80 - 4.75	3.15 - 3.55
Revolving credit	5.75	5.75

The bank borrowings are secured by:

- fixed charges over the leasehold land and factory and office buildings of the subsidiary (Note 3);

- debentures incorporating fixed and floating charges over all assets and undertakings of the subsidiary, both present and future;

- a corporate guarantee by the Company.

11. HIRE PURCHASE PAYABLES

	Group 2005 RM	Group 2004 RM
Minimum lease payments:		
Not later than 1 year	-	68,750
Less: Future finance charges	-	(13,750)
Present value of finance lease liabilities	-	55,000
Present value of finance lease liabilities:		
Not later than 1 year	-	55,000
Analysed as:		
Due within 12 months (Note 10)	-	55,000

The hire purchase payables bore interest at 9.15% (2004: 9.15%) per annum.

12. TRADE PAYABLES

The normal trade credit term granted to the Group ranges from 30 to 60 days (2004: 30 to 60 days).

13. OTHER PAYABLES

	Group 2005 RM	Group 2004 RM	Company 2005 RM	Company 2004 RM
Accruals	2,097,462	1,350,406	69,325	13,050
Sundry payables	7,848	764,712	7,848	13,248
	2,105,310	2,115,118	77,173	26,298

14. SHARE CAPITAL

	2005 Number of Shares	2004 Number of Shares	2005 RM	2004 RM
Authorised:				
Ordinary shares of RM0.20 each	250,000,000	250,000,000	50,000,000	50,000,000
Issued and fully paid:				
Ordinary shares of RM0.20 each				
At 1 January	140,000,010	140,000,010	28,000,002	28,000,002
Issued during the financial year	35,000,003	-	7,000,001	-
At 31 December	175,000,013	140,000,010	35,000,003	28,000,002

During the financial year, the Company increased its issued and paid-up share capital from RM28,000,002 to RM35,000,003 by way of the issuance of 35,000,003 ordinary shares of RM0.20 each through a bonus issue of 1 new ordinary share for every 4 existing ordinary shares capitalised from the revaluation reserve of the Company. The new ordinary shares issued during the financial year rank pari-passu in all respects with the existing ordinary shares of the Company.

15. SHARE PREMIUM

The share premium may be applied only for the purposes as specified in the Companies Act, 1965. The balance is not available for distribution of dividends except for in the form of shares.

16. REVALUATION RESERVE

	Company 2005 RM	Company 2004 RM
At 1 January	13,797,326	-
Arising from revaluation of the investment in a subsidiary	-	13,797,326
Capitalisation of revaluation reserve for bonus issue	(7,000,001)	-
At 31 December	6,797,325	13,797,326

17. DEFERRED TAX

	Group 2005 RM	2004 RM
At 1 January	2,933,645	1,553,652
Recognised in the income statement (Note 22)	439,995	1,379,993
At 31 December	3,373,640	2,933,645

Presented after appropriate offsetting as follows:

	2005 RM	2004 RM
Deferred tax liabilities	4,753,782	3,986,765
Deferred tax assets	(1,380,142)	(1,053,120)
	3,373,640	2,933,645

The components and movements of the Group's deferred tax liabilities and assets during the financial year prior to offsetting are as follows:

Deferred Tax Liabilities

	Accelerated Capital Allowances RM	Others RM	Total RM
At 1 January 2004	3,550,763	(88,412)	3,462,351
Recognised in the income statement	608,080	(83,666)	524,414
At 1 January 2005	4,158,843	(172,078)	3,986,765
Recognised in the income statement	767,017	-	767,017
At 31 December 2005	4,925,860	(172,078)	4,753,782

Deferred Tax Assets

	Unutilised Reinvestment Allowances RM
At 1 January 2004	(1,908,699)
Recognised in the income statement	855,579
At 1 January 2005	(1,053,120)
Recognised in the income statement	(327,022)
At 31 December 2005	(1,380,142)

18. REVENUE

Revenue represents the invoiced value of goods sold less sales tax, goods returned and trade discounts.

19. PROFIT/(LOSS) FROM OPERATIONS

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Profit/(loss) from operations is stated after charging/(crediting):				
Staff costs - excluding directors' remuneration (Note 20)	5,750,169	4,033,496	-	-
Depreciation of property, plant and equipment	2,297,964	2,060,657	468	468
Directors' remuneration				
- salaries and other emoluments	1,390,302	1,078,263	73,000	64,000
Provision for doubtful debts	18,750	300,000	-	-
Plant and machinery written off	-	170,867	-	-
Auditors' remuneration	38,000	38,000	10,000	10,000
Rent of premises	24,000	28,178	-	-
Bad debts written off	2,084	22,453	-	-
Doubtful debts recovered	(30,696)	(78,495)	-	-
Realised exchange loss/(gain)	47,664	(57,978)	-	-
Unrealised foreign exchange gain	(49,859)	(11,315)	-	-

Analysis of Directors' remuneration:

Directors of the Company				
Executive:				
Salaries and other emoluments	1,235,802	937,163	45,000	25,000
Bonus	121,500	102,100	-	-
	1,357,302	1,039,263	45,000	25,000
Non-executive:				
Salaries and other emoluments	28,000	39,000	28,000	39,000
Director of subsidiary				
Non-executive:				
Other emoluments	5,000	-	-	-

19. PROFIT/(LOSS) FROM OPERATIONS (CONTD.)

	Group 2005 RM	Group 2004 RM	Company 2005 RM	Company 2004 RM
Analysis excluding benefits-in-kind:				
Total executive directors' remuneration	1,357,302	1,039,263	45,000	25,000
Total non-executive directors' remuneration	33,000	39,000	28,000	39,000
Total directors' remuneration	1,390,302	1,078,263	73,000	64,000

The number of directors of the Company whose total remuneration during the financial year fell within the following bands is analysed below:

	Number of directors 2005	Number of directors 2004
Executive directors:		
Below RM50,000	2	2
RM50,001 - RM100,000	2	3
RM100,001 - RM150,000	2	1
RM150,001 - RM200,000	-	1
RM200,001 - RM250,000	2	1
RM400,001 - RM450,000	-	1
RM450,001 - RM500,000	1	-
Non-executive directors:		
Below RM50,000	3	3

20. STAFF COSTS

	Group 2005 RM	Group 2004 RM
Wages and salaries	5,239,386	3,578,455
Social security costs	33,454	29,485
Pension costs - defined contribution plans	410,339	335,923
Other staff related expenses	66,990	89,633
	5,750,169	4,033,496

21. FINANCE COSTS

	Group 2005 RM	Group 2004 RM
Interest expense on:		
Term loans	369,114	133,664
Other bank borrowings	631,354	579,375
Hire purchase financing	13,750	15,000
	1,014,218	728,039
Bank charges	260,473	212,288
	1,274,691	940,327

22. TAXATION

	Group 2005 RM	Group 2004 RM
Malaysian income tax:		
Tax expense for the year	293,626	442,007
Deferred tax:		
Relating to origination and reversal of temporary differences (Note 17)	439,995	1,379,993
	733,621	1,822,000

22. TAXATION (CONTD.)

Domestic income tax is calculated at the Malaysian statutory tax rate of 28% (2004: 28%) of the estimated assessable profit for the year. A reconciliation of income tax expense applicable to profit/(loss) before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and of the Company is as follows:

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Profit/(Loss) before taxation	5,573,066	6,266,953	(204,593)	(209,035)
Taxation at Malaysian statutory tax rate of 28% (2004: 28%)	1,560,458	1,754,747	(57,286)	(58,530)
Expenses not deductible for tax purposes	185,313	226,610	57,286	58,530
Utilisation of current year's reinvestment allowance	(1,012,150)	(159,357)	-	-
Tax expense for the year	733,621	1,822,000	-	-

Unutilised reinvestment allowance is analysed as follows:

	Group	
	2005 RM	2004 RM
Unutilised reinvestment allowance carried forward	4,929,000	3,761,000

23. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net profit for the year by the weighted average number of ordinary shares in issue during the financial year.

	Group	
	2005	2004
Net profit for the year (RM)	4,839,445	4,444,953
Weighted average number of ordinary shares in issue	156,301,381	140,000,010
Basic earnings per share (sen)	3.1	3.2

24. SIGNIFICANT RELATED PARTY TRANSACTIONS

	Group		Company	
	2005	2004	2005	2004
	RM	RM	RM	RM
Sales to Seong Chan Sauce & Foodstuff Sdn. Bhd.	(580,035)	(562,130)	-	-
Rent payable to Excellent Chemical Industrial Sdn. Bhd.	24,000	28,178	-	-

Seong Chan Sauce & Foodstuff Sdn. Bhd. and Excellent Chemical Industrial Sdn. Bhd. are companies in which Fang Chew Ham, Foong Chiew Fatt, Fong Chiew Hean and Fong Chu King @ Tong Chu King have financial interests.

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

25. COMMITMENTS

	Group	
	2005	2004
	RM	RM
Capital expenditure:		
Approved and contracted for	2,017,000	3,034,000

26. CONTINGENT LIABILITIES - UNSECURED

	Company	
	2005	2004
	RM	RM
Guarantees to licensed financial institutions in respect of credit facilities granted to a subsidiary company	58,456,000	32,320,000

27. FINANCIAL INSTRUMENTS

(a) Financial Risk Management Objectives and Policies

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its interest rate, foreign exchange, liquidity and credit risks. The Group oprates within clearly defined guidelines that are approved by the Board of Directors and the Group's policy is not to engage in speculative transactions.

(b) Interest Rate Risk

The Group's exposure to market risk for changes in the interest rate environment principally relates to its debts obligations. The Group manages its interest rate exposure by maintaining a mix of fixed and floating rate borrowings. The Group ensures that it obtains borrowings at favourable interest rates.

Information relating to the Group's interest rates is disclosed in the Notes 10 and 11.

(c) Foreign Exchange Risk

The Group is exposed to the effects of foreign currency exchange rate fluctuations, primarily in relation to the United States and Singapore dollars.

The Group's policy is to manage all of its foreign financial assets and liabilities using the best available foreign currency exchange rates. Transactional exposures in currencies other than the entity's functional currency are kept at a minimal level.

The net unhedged financial assets of the Group that are not denominated in their functional currency are as follows:

Functional currency of the Group is Ringgit Malaysia	**Singapore Dollar RM**
At 31 December 2005	
Receivables	818,590
At 31 December 2004	
Receivables	835,080

27. FINANCIAL INSTRUMENTS (CONTD.)

(c) Foreign Exchange Risk (Contd.)

During the financial year, the Group had entered into forward foreign exchange contracts with the following notional amounts and with maturity dates within one year:

	Currency	Total Notional Amount RM
At 31 December 2005		
Forwards used to hedge trade receivables	United States Dollar	3,479,065
At 31 December 2004		
Forwards used to hedge trade receivables	United States Dollar	2,253,572
Forwards used to hedge anticipated sales	United States Dollar	4,153,539

(d) Liquidity Risk

The Group actively manages its cash and cash equivalents, operating cash flows and the availability of funding so as to ensure that there is adequate working capital and that repayment and funding needs are met.

(e) Credit Risk

Credit risk is the risk that counter parties will be unable to meet their obligations resulting in financial loss to the Group.

It is the Group's policy to enter into transactions with a diversity of credit-worthy parties to mitigate any significant concentration of credit risk. The Group ensures that the goods sold are to customers with appropriate credit history and has internal mechanisms to monitor the granting of credit and management of credit exposures. The trade receivables represent the Group's maximum exposure to credit risk in the event the counter parties fail to perform their obligations. There was no significant concentration of credit risk to the Group as at year end.

27. FINANCIAL INSTRUMENTS (CONTD.)

(f) Fair Values

The carrying amounts of financial assets and liabilities of the Group and of the Company at the balance sheet date approximated their fair values except for the following:

	Group	
	Carrying Amount RM	Fair Value RM
At 31 December 2005		
Long term borrowings - term loans	4,938,298	1,604,000
At 31 December 2004		
Long term borrowings - term loans	1,184,761	465,830

The fair value of long term borrowings is estimated by discounting the expected future cash flows using the current interest rate for liabilities with similar risk profiles.

It is not practical to estimate the fair value of amount due from a subsidiary due principally to a lack of fixed repayment term entered by the parties involved and without incurring excessive costs. However, the Company does not anticipate the carrying amount recorded at the balance sheet date to be significantly different from the value that would eventually be received or settled.

28. SEGMENT INFORMATION

No segmental reporting is presented as the Group's activities are predominantly in one industry segment and occur predominantly in Malaysia.