

**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 2006.

**PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding. The principal activities of the subsidiary are disclosed in Note 5 to the financial statements.

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

**RESULTS**

	<b>Group RM</b>	<b>Company RM</b>
Net profit for the year	<u>8,631,891</u>	<u>9,900,833</u>

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**

The amount of dividends paid by the Company since 31 December 2005 were as follows:

In respect of the financial year ended 31 December 2006:	<b>RM</b>
1.2 sen tax exempt interim dividend on 175,000,012 ordinary shares, declared on 9 January 2007 and paid on 13 February 2007	<u>2,100,000</u>

This financial statements do not reflect the above interim dividend as it was only declared and paid subsequent to the financial year end. It will be accounted for in equity as an appropriation of retained earnings in financial year ending 31 December 2007. The directors do not recommend the payment of any final dividend in respect of the current financial year ended 31 December 2006.

**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

Fang Siew Yee

Fang Siew Ping

Liew Kuo Shin

Khoo Wee Boon

Mohd Zaki Bin Hamzah

(appointed on 9 January 2007)

Dato' Samsudin Bin Abu Hassan

(resigned on 31 December 2006)

**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 21 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 27 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:

	<b>Number of Ordinary Shares of RM0.20 each</b>			<b>At 31.12.2006</b>
	<b>At 1.1.2006</b>	<b>Bought</b>	<b>Sold</b>	
<b>Direct interest</b>				
Fang Chew Ham	57,237,875	-	(61,800)	57,176,075
Dato' Mohd Nor				
Bin Abdul Wahid	5,681,250	-	-	5,681,250
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	5,584,675	2,026,250	-	7,610,925
Chew Eng Chai	90,000	22,500	-	112,500
Tan Chon Sing @				
Tan Kim Tieng	660,000	165,000	-	825,000
Fang Siew Ping	62,500	1,250,000	-	1,312,500
Liew Kuo Shin	102,500	25,625	-	128,125
Fang Siew Yee	-	200,000	-	200,000

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 there were no known bad debts 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) it necessary to write off any 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 liability 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.

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**AUDITORS**

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

Signed on behalf of the Board in accordance with a resolution of the directors dated 6 April 2007.

Dato' Mohd Nor Bin Abdul Wahid

Fang Chew Ham

**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 47 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2006 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 in accordance with a resolution of the directors dated 6 April 2007.

Dato' Mohd Nor Bin Abdul Wahid

Fang Chew Ham

**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 47 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 6 April 2007

Fang Chew Ham

Before me,

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**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 47. 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 for Entities Other Than Private Entities 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 2006 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.

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**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  
AF: 0039  
Chartered Accountants

Low Khung Leong  
No. 2697/01/09(J)  
Partner

Kuala Lumpur, Malaysia  
6 April 2007

**THREE-A RESOURCES BERHAD**  
**(Incorporated in Malaysia)**

**BALANCE SHEETS**  
**AS AT 31 DECEMBER 2006**

	Note	Group		Company	
		2006 RM	2005 RM	2006 RM	2005 RM
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	3	45,846,300	40,709,596	2,803	3,271
Prepaid land lease payments	4	9,118,589	6,564,061	-	-
Investment in a subsidiary	5	-	-	20,100,000	20,100,000
Due from a subsidiary	6	-	-	17,918,543	8,070,307
Negative goodwill	7	-	(4,553,656)	-	-
		<u>54,964,889</u>	<u>42,720,001</u>	<u>38,021,346</u>	<u>28,173,578</u>
<b>CURRENT ASSETS</b>					
Inventories	8	13,829,071	14,734,562	-	-
Trade receivables	9	22,968,729	21,433,490	-	-
Other receivables	10	1,273,302	627,211	1,160	1,160
Tax recoverable		-	333,890	-	-
Cash and cash equivalents	11	1,312,541	1,297,743	362	472
		<u>39,383,643</u>	<u>38,426,896</u>	<u>1,522</u>	<u>1,632</u>
<b>CURRENT LIABILITIES</b>					
Borrowings	12	21,458,771	25,421,629	-	-
Trade payables	13	2,298,993	2,922,275	-	-
Other payables	14	2,274,476	2,105,310	23,998	77,173
Provision for taxation		47,662	-	-	-
		<u>26,079,902</u>	<u>30,449,214</u>	<u>23,998</u>	<u>77,173</u>
<b>NET CURRENT ASSETS/ (LIABILITIES)</b>					
		<u>13,303,741</u>	<u>7,977,682</u>	<u>(22,476)</u>	<u>(75,541)</u>
		<u>68,268,630</u>	<u>50,697,683</u>	<u>37,998,870</u>	<u>28,098,037</u>

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**THREE-A RESOURCES BERHAD**  
**(Incorporated in Malaysia)**

**BALANCE SHEETS**  
**AS AT 31 DECEMBER 2006 (CONTD.)**

		<b>Group</b>		<b>Company</b>	
	<b>Note</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
		<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
<b>FINANCED BY:</b>					
<b>EQUITY</b>					
<b>Equity attributable to equity holders of the Company</b>					
Share capital	15	35,000,003	35,000,003	35,000,003	35,000,003
Share premium	16	733,629	733,629	733,629	733,629
Revaluation reserve	17	-	-	-	-
Retained earnings/(Accumulated losses)	18	18,457,518	5,271,971	2,265,238	(7,635,595)
Total equity		<u>54,191,150</u>	<u>41,005,603</u>	<u>37,998,870</u>	<u>28,098,037</u>
<b>NON-CURRENT LIABILITIES</b>					
Borrowings	12	9,323,839	4,938,298	-	-
Deferred tax liabilities	19	4,753,641	4,753,782	-	-
		<u>14,077,480</u>	<u>9,692,080</u>	<u>-</u>	<u>-</u>
		<u>68,268,630</u>	<u>50,697,683</u>	<u>37,998,870</u>	<u>28,098,037</u>

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 2006**

	Note	Group		Company	
		2006 RM	2005 RM	2006 RM	2005 RM
Revenue	20	84,015,856	70,785,504	10,000,000	-
Cost of sales		(62,624,285)	(54,737,400)	-	-
Gross profit		21,391,571	16,048,104	10,000,000	-
Other income		67,044	32,892	-	-
Administrative expenses		(6,772,120)	(5,720,233)	(99,167)	(204,593)
Other expenses		(3,697,097)	(3,513,006)	-	-
Profit/(loss) from operations	21	10,989,398	6,847,757	9,900,833	(204,593)
Finance costs	23	(1,589,034)	(1,274,691)	-	-
Profit/(loss) before taxation		9,400,364	5,573,066	9,900,833	(204,593)
Taxation	24	(768,473)	(733,621)	-	-
Net profit/(loss) for the year		8,631,891	4,839,445	9,900,833	(204,593)

**Earnings per share attributable to equity  
holders of the Company (sen):**

Basic, for profit for the year	26	4.9	3.1
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The accompanying notes form an integral part of the financial statements.

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**STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2006**

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**STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2006**

**THREE-A RESOURCES BERHAD**  
**(Incorporated in Malaysia)**

**CASH FLOW STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

	<b>Group</b>		<b>Company</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit/(loss) before taxation	9,400,364	5,573,066	9,900,833	(204,593)
Adjustments for:				
Amortisation of leasehold land	143,671	10,667	-	-
Depreciation of property, plant and equipment	2,569,053	2,287,297	468	468
Provision for doubtful debts	-	18,750	-	-
Doubtful debts recovered	-	(30,696)	-	-
Bad debts written off	-	2,084	-	-
Unrealised foreign exchange gain/ (loss)	104,731	(49,859)	-	-
Interest expense	1,377,942	1,014,218	-	-
Operating profit/(loss) before working capital changes	13,595,761	8,825,527	9,901,301	(204,125)
Working capital changes:				
Inventories	905,491	(7,206,191)	-	-
Receivables	(2,286,061)	(5,095,304)	-	-
Payables	(454,116)	1,402,188	(53,175)	50,875
Subsidiary	-	-	(9,848,236)	214,132
Cash generated from/(used in) operations	11,761,075	(2,073,780)	(110)	60,882
Interest paid	(1,377,942)	(1,014,218)	-	-
Income tax paid	(387,062)	(474,738)	-	-
Net cash generated from/(used in) operating activities	9,996,071	(3,562,736)	(110)	60,882
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of property, plant and equipment	(6,782,195)	(4,930,858)	-	-
Prepayment of land lease	(1,836,881)	(1,180,000)	-	-
Net cash used in investing activities	(8,619,076)	(6,110,858)	-	-

**THREE-A RESOURCES BERHAD**  
**(Incorporated in Malaysia)**

**CASH FLOW STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTD.)**

	<b>Group</b>		<b>Company</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
(Repayment)/Drawdown of bankers acceptances	(5,039,319)	19,235,491	-	-
Drawdown of term loans	4,127,071	4,308,108	-	-
Repayment of currency trade financing	-	(11,500,398)	-	-
Repayment of revolving credit	-	(1,000,000)	-	-
Repayment of hire purchase financing	(449,949)	(55,000)	-	-
Payment of expenses arising from bonus issue	-	(60,992)	-	(60,992)
Net (used in)/cash generated from financing activities	<u>(1,362,197)</u>	<u>10,927,209</u>	<u>-</u>	<u>(60,992)</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>				
	14,798	1,253,615	(110)	(110)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR</b>				
	<u>1,297,743</u>	<u>44,128</u>	<u>472</u>	<u>582</u>
<b>CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR (NOTE 11)</b>				
	<u>1,312,541</u>	<u>1,297,743</u>	<u>362</u>	<u>472</u>

Acquisitions of property, plant and equipment during the current financial year were financed by:

	<b>Group</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>
Cash	6,782,195	4,930,858
Hire Purchase	1,784,880	-
	<u>8,567,075</u>	<u>4,930,858</u>

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 2006**

**1. CORPORATE INFORMATION**

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 principal activity of the Company is investment holding. The principal activities of the subsidiary are disclosed in Note 5. There have been no significant changes in the nature of the principal activities during the financial year.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 6 April 2007.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**2.1 Basis of Preparation**

The financial statements comply with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities. At the beginning of the current financial year, the Group and the Company had adopted new and revised FRSs which are mandatory for financial periods beginning on or after 1 January 2006 as described fully in Note 2.3.

These financial statements have also been prepared on a historical basis and are presented in Ringgit Malaysia (RM).

**2.2 Summary of Significant Accounting Policies**

**(a) Subsidiary and Basis of Consolidation**

**(i) Subsidiary**

Subsidiary is an entity over which the Group has the ability to control the financial and operating policies so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has such power over another entity.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.2 Summary of Significant Accounting Policies (Contd.)

#### (a) Subsidiary and Basis of Consolidation (Contd.)

##### (i) Subsidiary (Contd.)

In the Company's separate financial statements, investment in subsidiary is stated at cost less impairment losses. On disposal of such investment, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

##### (ii) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary as at the balance sheet date. The financial statements of the subsidiary are prepared for the same reporting date as the Company.

The subsidiary is consolidated from the date of acquisition, being the date on which the Group obtains control, and continues to be consolidated until the date that such control ceases. In preparing the consolidated financial statements, intragroup balances, transactions and unrealised gains or losses are eliminated in full. Uniform accounting policies are adopted in the consolidated financial statements for like transactions and events in similar circumstances.

Acquisition of subsidiary is accounted for using the purchase method. The purchase method of accounting involves allocating the cost of the acquisition to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of an acquisition is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the acquisition.

Any excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill. Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in profit or loss.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.2 Summary of Significant Accounting Policies (Contd.)

#### (b) Property, Plant and Equipment and Depreciation

All items of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Subsequent to recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Capital work-in-progress are not depreciated as these assets are not available 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%

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in profit or loss and the unutilised portion of the revaluation surplus on that item is taken directly to retained earnings.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.2 Summary of Significant Accounting Policies (Contd.)

#### (c) Leases

##### (i) Classification

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incidental to ownership. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets and the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. All leases that do not transfer substantially all the risks and rewards are classified as operating leases.

##### (ii) Finance 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 Company's incremental borrowing rate is used. Any initial direct costs are also added to the carrying amount of such assets.

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 in the profit or loss 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.

The depreciation policy for leased assets is in accordance with that for depreciable property, plant and equipment as described in Note 2.2(b).

##### (iii) Operating Leases

In the case of a lease of land and buildings, the minimum lease payments or the up-front payments made are allocated, whenever necessary, between the land and the buildings elements in proportion to the relative fair values for leasehold interests in the land element and buildings element of the lease at the inception of the lease. The up-front payment represents prepaid lease payments and are amortised on a straight-line basis over the lease term.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.2 Summary of Significant Accounting Policies (Contd.)

#### (d) Inventories

Inventories are stated at lower of cost and net realisable value.

Cost is determined using the first in, first out method. The cost of raw materials comprises costs of purchase. The costs of finished goods and work-in-progress comprise costs of raw materials, direct labour, other direct costs and appropriate proportions of manufacturing overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

#### (e) Provisions

Provisions 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, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

#### (f) 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

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. Such contributions are recognised as an expense in the profit or loss as incurred. As required by law, companies in Malaysia make such contributions to the Employees Provident Fund (“EPF”).

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.2 Summary of Significant Accounting Policies (Contd.)

#### (g) 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.

#### (h) 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 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.

#### (i) 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 is recognised net of sales taxes and upon transfer of significant risks and rewards of ownership to the buyer. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.2 Summary of Significant Accounting Policies (Contd.)

#### (i) Revenue Recognition (Contd.)

##### (ii) Interest income

Interest income is recognised on an accrual basis using the effective interest method.

##### (iii) Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

#### (j) Foreign Currencies

##### (i) Functional and Presentation Currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The consolidated financial statements are presented in Ringgit Malaysia (RM), which is also the Company’s functional currency.

##### (ii) Foreign Currency Transactions

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.2 Summary of Significant Accounting Policies (Contd.)

#### (j) Foreign Currencies (Contd.)

##### (ii) Foreign Currency Transactions (Contd.)

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operation. Exchange differences arising on monetary items that form part of the Group's net investment in foreign operation, where that monetary item is denominated in either the functional currency of the reporting entity or the foreign operation, are initially taken directly to the foreign currency translation reserve within equity until the disposal of the foreign operations, at which time they are recognised in profit or loss. Exchange differences arising on monetary items that form part of the Group's net investment in foreign operation, where that monetary item is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, are recognised in profit or loss for the period. Exchange differences arising on monetary items that form part of the Company's net investment in foreign operation, regardless of the currency of the monetary item, are recognised in profit or loss in the Company's financial statements or the individual financial statements of the foreign operation, as appropriate.

Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

#### (k) Impairment of Non-Financial Assets

The carrying amounts of the Group's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs to.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.2 Summary of Significant Accounting Policies (Contd.)

#### (k) Impairment of Non-Financial Assets (Contd.)

An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

An impairment loss is recognised in profit or loss in the period.

#### (l) 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) 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.

##### (ii) 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.2 Summary of Significant Accounting Policies (Contd.)

#### (i) Financial Instruments (Contd.)

##### (iii) 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.

##### (iv) Interest Bearing Loans and Borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

##### (v) 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.

### 2.3 Changes in Accounting Policies and Effects Arising from Adoption of New and Revised FRSs

On 1 January 2006, the Group and the Company adopted the following FRSs mandatory for financial periods beginning on or after 1 January 2006:

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.3 Changes in Accounting Policies and Effects Arising from Adoption of New and Revised FRSs (Contd.)

In addition, the Group has early adopted the following new and revised FRSs for the financial period beginning 1 January 2006:

FRS 117 Leases

FRS 124 Related Party Disclosures

The Group has not early adopted the deferred FRS 139 - Financial Instruments: Recognition and Measurement and the following FRSs and amendment that are mandatory for financial periods beginning on or after 1 January 2007:

- (i) FRS 6: Exploration for and Evaluation of Mineral Resources  
FRS 6 is not relevant to the Group's operations.

The adoptions of revised FRS 102, 108, 110, 116, 121, 124, 132 and 133 did not result in significant changes in accounting policies of the Group. The principal changes in accounting policies and their effects resulting from the adoption of the other new and revised FRSs are discussed below:

#### (a) **FRS 3: Business Combinations, FRS 136: Impairment of Assets and FRS 138: Intangible Assets**

The new FRS 3 has resulted in consequential amendments to two other accounting standards, FRS 136 and FRS 138. In accordance with the transitional provisions, FRS 3 has been applied for business combinations for which the agreement date is on or after 1 January 2006.

#### **Excess of Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as negative goodwill)**

Prior to 1 January 2006, negative goodwill was derived from the acquisition of the subsidiary in 2002. Negative goodwill was not amortised. Under FRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of acquisitions, after reassessment, is now recognised immediately in profit or loss. In accordance with transitional provision of FRS 3, the negative goodwill as at 1 January 2006 of RM4,553,656 was derecognised with a corresponding increase in retained earnings.

Because the revised accounting policy has been applied prospectively, the change has had no impact on amounts reported for 2005 or prior periods. The effects on the consolidated balance sheet as at 31 December 2006 are set out in Note 2.3(d). This change has no impact on the Company's financial statements.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.3 Changes in Accounting Policies and Effects Arising from Adoption of New and Revised FRSs (Contd.)

#### (b) FRS 117: Leases

##### **Leasehold land held for own use**

Prior to 1 January 2006, leasehold land held for own use was classified as property, plant and equipment and was stated at cost less accumulated depreciation and impairment losses. The adoption of the revised FRS 117 has resulted in a change in the accounting policy relating to the classification of leases of land and buildings. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets and the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. Leasehold land held for own use is now classified as operating lease and where necessary, the minimum lease payments or the up-front payments made are allocated between the land and the buildings elements in proportion to the relative fair values for leasehold interests in the land element and buildings element of the lease at the inception of the lease. The up-front payment represents prepaid lease payments and are amortised on a straight-line basis over the lease term.

The Group has applied the change in accounting policy in respect of leasehold land in accordance with the transitional provisions of FRS 117. At 1 January 2006, the unamortised amount of leasehold land is retained as the surrogate carrying amount of prepaid lease payments as allowed by the transitional provisions. The reclassification of leasehold land as prepaid lease payments has been accounted for retrospectively and certain comparatives have been restated. The effects on the consolidated balance sheet as at 31 December 2006 are set out in Note 2.3(d) and Note 4. There were no effects on the consolidated income statement for the year ended 31 December 2006 and the Company's financial statements.

#### (c) FRS 127: Consolidation and Separate Financial Statements

Prior to 1 January 2006, investment in subsidiary was stated at valuation. Revaluations were carried out at least once every five years and any revaluation increase is taken to equity as a revaluation reserve. The investment in subsidiary was last revalued in 2004.

During the current financial year, the Company decided to value its investment in subsidiary using the cost method, as FRS 127 provides that for a subsidiary that is included in the consolidated financial statements, the investment can be accounted for in the parent's separate financial statements using either the cost or in accordance with FRS 139. The adoption of FRS 127 has resulted in the Company stating its investment in subsidiary at cost less impairment losses. The change in valuation method has given rise to a prior year adjustment, the effect of which is shown in Note 2.3(d) and Note 2.3(e).

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

## 2.3 Changes in Accounting Policies and Effects Arising from Adoption of New and Revised FRSs (Contd.)

## (d) Summary of effects of adopting new and revised FRSs on the current year's financial statements

The following table provides estimated of the extent to which each of the line items in the balance sheets and income statements for the year ended 31 December 2006 is higher or lower than it would have been had the previous policies been applied in the current year.

## Effects on balance sheets as at 31 December 2006:

	Increase/(Decrease)			Total RM
	FRS 3 Note 2.3(a) RM	FRS 117 Note 2.3(b) RM	FRS 127 Note 2.3(c) RM	
<b>Group</b>				
Property, plant and equipment	-	(9,118,589)	-	(9,118,589)
Prepaid land lease payments	-	9,118,589	-	9,118,589
Negative goodwill	(4,553,656)	-	-	(4,553,656)
Retained earnings	4,553,656	-	-	4,553,656
<b>Company</b>				
Investment in a subsidiary	-	-	(13,797,326)	(13,797,326)
Revaluation reserves	-	-	6,797,325	6,797,325
Accumulated losses	-	-	7,000,001	7,000,001

The newly adopted FRSs above have no impact on the income statements for the year ended 31 December 2006 had the previous policies been applied in current year.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

## 2.3 Changes in Accounting Policies and Effects Arising from Adoption of New and Revised FRSs (Contd.)

## (e) Restatement of comparatives

The following comparative amounts have been restated as a result of adopting the new and revised FRSs:

	Previously Stated  RM	Increase/(Decrease)		Restated  RM
		FRS 117 Note 2.3(b) RM	FRS 127 Note 2.3(c) RM	
<b>At 1 January 2005</b>				
<b>Company</b>				
Revaluation reserves	(13,797,326)	-	13,797,326	-
<b>At 31 December 2005</b>				
<b>Group</b>				
Property, plant and equipment	47,273,657	(6,564,061)	-	40,709,596
Prepaid land lease	-	6,564,061	-	6,564,061
<b>Company</b>				
Investment in a subsidiary	33,897,326	-	(13,797,326)	20,100,000
Revaluation reserves	(6,797,325)	-	6,797,325	-
Accumulated losses	635,594	-	7,000,001	7,635,595

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## 3. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

Company	Furniture and fittings	
	2006	2005
	RM	RM
<b>Cost</b>		
At 1 January/31 December	4,675	4,675
<b>Accumulated Depreciation</b>		
At 1 January	1,404	936
Charge for the year	468	468
At 31 December	1,872	1,404
<b>Net Carrying Amount</b>		
At 31 December	2,803	3,271

(a) All property, plant and equipment are charged as securities for borrowings facilities (Note 12) obtained by the subsidiary.

(b) Included in property, plant and equipment of the Group as at balance sheet date are motor vehicles held under hire purchase with an aggregate net book value of RM1,690,223.

## 4. PREPAID LAND LEASE PAYMENTS

	Group	
	2006	2005
	RM	RM
At 1 January	6,564,061	5,394,728
Transfer from property, plant and equipment (Note 3)	861,318	-
Additions	1,836,881	1,180,000
Amortisation for the year (Note 21)	(143,671)	(10,667)
At 31 December	9,118,589	6,564,061
<b>Analysed as:</b>		
Long term leasehold land	8,721,840	6,156,729
Short term leasehold land	396,749	407,332
	9,118,589	6,564,061

The prepaid land lease payments are charged as securities for borrowing facilities of the subsidiary (Note 12).

**5. INVESTMENT IN A SUBSIDIARY**

	<b>Company</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>
Unquoted investment		
At 1 January, as previously stated	20,100,000	33,897,326
Effect of adopting FRS 127	-	(13,797,326)
At 31 December, restated	<u>20,100,000</u>	<u>20,100,000</u>

Details of the subsidiary are as follows:

<b>Name of Subsidiary</b>	<b>Country of incorporation</b>	<b>Equity interest held</b>		<b>Principal activities</b>
		<b>2006</b>	<b>2005</b>	
San Soon Seng Food Industries Sdn. Bhd. *	Malaysia	100%	100%	Manufacturing and selling of food and beverage ingredients

\* Audited by Ernst & Young, Malaysia

In prior years, the Company's investment in its subsidiary was stated at valuation. Upon the adoption of the revised FRS 127, the directors decided it is in the best interest of the Company to account for its interests in the subsidiary at cost. The change in accounting policy has been applied retrospectively and its effects on the opening reserves are disclosed in Note 2.3(e).

**6. DUE FROM A SUBSIDIARY**

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

**7. NEGATIVE GOODWILL**

	<b>2006</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>
At 1 January	(4,553,656)	(4,553,656)
Effect of adopting FRS 3	4,553,656	-
At 31 December	<u>-</u>	<u>(4,553,656)</u>

Prior to 1 January 2006, negative goodwill was stated at cost and not amortised. In accordance with the transitional provision of FRS 3, the Group derecognised the entire negative goodwill with a corresponding increase in retained earnings.

**8. INVENTORIES**

	<b>Group</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>
At cost:		
Finished goods	2,813,683	2,453,594
Raw materials	10,582,705	11,865,073
Packing materials	432,683	415,895
	<u>13,829,071</u>	<u>14,734,562</u>

The cost of inventories recognised as an expense during the financial year amounted to RM56,902,943 (2005: RM49,437,132).

**9. TRADE RECEIVABLES**

	<b>Group</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>
Trade receivables		
- third parties	23,576,026	22,091,986
- related party	187,721	136,522
	<u>23,763,747</u>	<u>22,228,508</u>
Less: Provision for doubtful debts	(795,018)	(795,018)
Trade receivables, net	<u>22,968,729</u>	<u>21,433,490</u>

**(a) Credit risk**

The Group's primary exposure to credit risk arises through its trade receivables. The Group's trading terms with its customers are mainly on credit. The Group's normal trade credit term ranges from 30 to 150 days (2005: 30 to 150 days). Other credit terms are assessed and approved on a case-by-case basis. The Group has internal mechanisms to monitor the granting of credit and management of credit exposures. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk noted at balance sheet date.

**(b) Amount due from a related party**

Related party's debts are due from Seong Chan Sauce & Foodstuff Sdn. Bhd., a company in which certain directors have financial interests. Further details on related party transactions are disclosed in Note 27.

**10. OTHER RECEIVABLES**

	<b>Group</b>		<b>Company</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Sundry receivables, deposits and prepayments	1,453,302	807,211	1,160	1,160
Less: Provision for doubtful debts	(180,000)	(180,000)	-	-
	<u>1,273,302</u>	<u>627,211</u>	<u>1,160</u>	<u>1,160</u>

Included in deposits are advances paid for purchases of plant and machinery of RM1,051,882.

**11. CASH AND CASH EQUIVALENTS**

	<b>Group</b>		<b>Company</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Cash and bank balances	1,312,541	1,338,433	362	472
Bank overdrafts (Note 12)	-	(40,690)	-	-
	<u>1,312,541</u>	<u>1,297,743</u>	<u>362</u>	<u>472</u>

**12. BORROWINGS**

	<b>Group</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>
<b>Short Term Borrowings</b>		
Secured:		
Bank overdrafts	-	40,690
Bankers acceptances	19,409,962	24,449,281
Term loans	1,627,922	972,348
Hire purchase payables	420,887	-
	<u>21,458,771</u>	<u>25,462,319</u>
Less: Bank overdrafts (Note 11)	-	(40,690)
	<u>21,458,771</u>	<u>25,421,629</u>
<b>Long Term Borrowings</b>		
Secured:		
Term loans	8,409,795	4,938,298
Hire purchase payables	914,044	-
	<u>9,323,839</u>	<u>4,938,298</u>

**12. BORROWINGS (CONTD.)**

	<b>Effective Interest %</b>	<b>Maturity</b>	<b>Group 2006 RM</b>	<b>2005 RM</b>
<b>Total Borrowings</b>				
Bank overdrafts	7.50 - 7.75	On demand	-	40,690
Bankers acceptances	3.50 - 4.70	2007	19,409,962	24,449,281
Term loans	6.50 - 8.25	2007 - 2016	10,037,717	5,910,646
Hire purchase payables	2.46 - 3.70	2007 - 2012	1,334,931	-
			<u>30,782,610</u>	<u>30,400,617</u>
<b>Maturity of borrowings</b>				
Within one year			21,458,771	25,462,319
More than 1 year and less than 2 years			2,031,230	1,042,663
More than 2 years but less than 5 years			4,276,548	3,895,635
More than 5 years			3,016,061	-
			<u>30,782,610</u>	<u>30,400,617</u>

Except for bank overdraft and bankers acceptances, which are bearing interest at floating rates, all other borrowings are at fixed rate terms.

The bank borrowings are secured by the following:

- fixed charges over the prepaid land lease payments (Note 4), 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;
- negative pledge on two adjoining pieces of leasehold land;
- a corporate guarantee by the Company.

**Hire Purchase and Finance Leases:**

Details on the hire purchase are as follows:

	<b>Group 2006 RM</b>	<b>2005 RM</b>
<b>Future minimum lease payments:</b>		
Not later than 1 year	490,296	-
Later than 1 year and not later than 2 years	423,776	-
Later than 2 years and not later than 5 years	562,583	-
Total future minimum lease payments	1,476,655	-
Less: Future finance charges	(141,724)	-
Present value of finance lease liabilities	<u>1,334,931</u>	<u>-</u>

**12. BORROWINGS (CONTD.)**

	<b>Group</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>
<b>Analysis of present value of finance lease liabilities:</b>		
Not later than 1 year	420,887	-
Later than 1 year and not later than 2 years	380,997	-
Later than 2 years and not later than 5 years	533,047	-
	<u>1,334,931</u>	<u>-</u>
Less: Amount due within 12 months	(420,887)	-
Amount due after 12 months	<u>914,044</u>	<u>-</u>

**13. TRADE PAYABLES**

The normal trade credit term granted to the Group ranges from 30 to 60 days (2005: 30 to 60 days).

**14. OTHER PAYABLES**

	<b>Group</b>		<b>Company</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Accruals	1,480,253	1,017,694	23,998	69,325
Sundry payables	794,223	1,087,616	-	7,848
	<u>2,274,476</u>	<u>2,105,310</u>	<u>23,998</u>	<u>77,173</u>

**15. SHARE CAPITAL**

	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>Number of</b>	<b>Number of</b>	<b>RM</b>	<b>RM</b>
	<b>Shares</b>	<b>Shares</b>		
Authorised:				
Ordinary shares of RM0.20 each	<u>250,000,000</u>	<u>250,000,000</u>	<u>50,000,000</u>	<u>50,000,000</u>
Issued and fully paid:				
Ordinary shares of RM0.20 each				
At 1 January	175,000,012	140,000,010	35,000,003	28,000,002
Issued during the financial year	-	35,000,002	-	7,000,001
At 31 December	<u>175,000,012</u>	<u>175,000,012</u>	<u>35,000,003</u>	<u>35,000,003</u>

**16. 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 bonus shares.

**17. REVALUATION RESERVE**

	<b>Company</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>
At 1 January, as previously stated	-	6,797,325
Effects of adopting FRS 127	-	(6,797,325)
At 31 December	<u>-</u>	<u>-</u>

As discussed in Note 5, the revaluation reserve has been derecognised upon the adoption of FRS 127. The effect of the change in accounting policy has been applied retrospectively and its effects are disclosed in Note 2.3(e).

**18. RETAINED EARNINGS**

As at 31 December 2006, the Company has tax exempt profits available for distribution of approximately RM10,000,000 (2005: RM Nil), subject to the agreement of the Inland Revenue Board.

The Company has sufficient tax credit under Section 108 of the Income Tax Act, 1967 and the balance in the tax exempt income account to frank payments of dividends out of its entire retained earnings as at 31 December 2006.

**19. DEFERRED TAX LIABILITIES**

	<b>Group</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>
At 1 January		
As previously stated	4,753,782	2,933,645
Prior year adjustment to derecognise deferred tax on reinvestment allowance	-	1,380,142
As restated	<u>4,753,782</u>	<u>4,313,787</u>
Recognised in the income statement (Note 24)	(141)	439,995
At 31 December	<u>4,753,641</u>	<u>4,753,782</u>

**19. DEFERRED TAX (CONTD.)**

Presented after appropriate offsetting as follows:

	<b>Group</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>
Deferred tax liabilities	4,925,719	4,925,860
Deferred tax assets	(172,078)	(172,078)
	<u>4,753,641</u>	<u>4,753,782</u>

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**

	<b>Accelerated Capital Allowances RM</b>
At 1 January 2005	4,158,843
Recognised in the income statement	<u>767,017</u>
At 1 January 2006	4,925,860
Recognised in the income statement	<u>(141)</u>
At 31 December 2006	<u>4,925,719</u>

**Deferred Tax Assets**

In prior years, the Group and the Company recognised deferred tax assets on unused reinvestment allowances. During the current year, the Group and the Company changed its accounting policy and accordingly, deferred tax assets on unused reinvestment allowances are derecognised. The effects arising from this change on the comparative figures are as follows:

	<b>Unutilised Reinvestment Allowances RM</b>	<b>Others RM</b>	<b>Total RM</b>
At 1 January 2005, as previously stated	(1,053,120)	(172,078)	(1,225,198)
Prior year adjustment	1,380,142	-	1,380,142
At 1 January 2005, as restated	<u>327,022</u>	<u>(172,078)</u>	<u>154,944</u>
Recognised in the income statement	<u>(327,022)</u>	<u>-</u>	<u>(327,022)</u>
At 31 December 2005 / 2006	<u>-</u>	<u>(172,078)</u>	<u>(172,078)</u>

**19. DEFERRED TAX (CONTD.)**

Comparative amounts as at 1 January 2006 have been restated as follows:

	<b>As Restated RM</b>	<b>Adjustments RM</b>	<b>As Previously Stated RM</b>
Balance Sheet:			
Deferred tax liabilities	4,753,782	1,380,142	3,373,640
Retained earnings	5,271,971	(1,380,142)	6,652,113

**20. REVENUE**

	<b>Group</b>		<b>Company</b>	
	<b>2006 RM</b>	<b>2005 RM</b>	<b>2006 RM</b>	<b>2005 RM</b>
Sales of goods	84,015,856	70,785,504	-	-
Dividend income	-	-	10,000,000	-
	<u>84,015,856</u>	<u>70,785,504</u>	<u>10,000,000</u>	<u>-</u>

**21. PROFIT/(LOSS) FROM OPERATIONS**

Profit/(loss) from operations is stated after charging/(crediting):

Staff costs (Note 22)	6,589,842	5,750,169	-	-
Depreciation of property, plant and equipment	2,569,053	2,287,297	468	468
Amortisation of prepaid land lease payments (Note 4)	143,671	10,667	-	-
Non-executive directors' remuneration	18,000	33,000	18,000	28,000
Provision for doubtful debts	-	18,750	-	-
Auditors' remuneration	38,000	38,000	10,000	10,000
Rent of premises	27,136	24,000	-	-
Bad debts written off	-	2,084	-	-
Doubtful debts recovered	-	(30,696)	-	-
Realised exchange (gain)/loss	(166,714)	47,664	-	-
Unrealised foreign exchange loss/(gain)	104,731	(49,859)	-	-

**21. PROFIT/(LOSS) FROM OPERATIONS (CONTD.)**

Analysis of directors' remuneration:

	<b>Group</b>		<b>Company</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Executive directors' remuneration:				
Other emoluments	1,480,601	1,357,302	-	45,000
Non-executive directors' remuneration:				
Other emoluments	18,000	33,000	18,000	28,000
Total directors' remuneration (Note 27)	<u>1,498,601</u>	<u>1,390,302</u>	<u>18,000</u>	<u>73,000</u>

The details of remuneration receivable by directors of the Company during the year are as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Executive:				
Salaries and other emoluments	1,149,093	1,099,974	-	45,000
Bonus	176,000	121,500	-	-
Defined contribution plan	155,508	135,828	-	-
	<u>1,480,601</u>	<u>1,357,302</u>	<u>-</u>	<u>45,000</u>
Non-Executive:	-	-	-	-
Other emoluments	18,000	33,000	18,000	28,000
	<u>1,498,601</u>	<u>1,390,302</u>	<u>18,000</u>	<u>73,000</u>

**21. PROFIT/(LOSS) FROM OPERATIONS (CONTD.)**

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

	<b>Number of directors</b>	
	<b>2006</b>	<b>2005</b>
Executive directors:		
Below RM50,000	1	2
RM50,001 - RM100,000	-	2
RM100,001 - RM150,000	2	2
RM150,001 - RM200,000	1	-
RM200,001 - RM250,000	-	2
RM250,001 - RM300,000	2	-
RM450,001 - RM500,000	1	1
Non-executive directors:		
Below RM50,000	5	3

**22. STAFF COSTS**

	<b>Group</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>
Wages and salaries	5,970,750	5,239,386
Social security costs	41,197	33,454
Pension costs - defined contribution plans	474,140	410,339
Other staff related expenses	103,755	66,990
	<u>6,589,842</u>	<u>5,750,169</u>

Included in staff costs of the Group and of the Company are executive directors' remuneration amounting to RM1,480,601 (2005: RM1,357,302) and RM Nil (2005: RM45,000) respectively as further disclosed in Note 21.

**23. FINANCE COSTS**

	<b>Group</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>
Interest expense on:		
Term loans	557,655	369,114
Bankers acceptances	733,955	440,590
Bank overdrafts	52,611	190,764
Hire purchase financing	33,721	13,750
	<u>1,377,942</u>	<u>1,014,218</u>
Bank charges	211,092	260,473
	<u>1,589,034</u>	<u>1,274,691</u>

**24. TAXATION**

	<b>Group</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>
Malaysian income tax:		
Tax expense for the year	<u>768,614</u>	<u>293,626</u>
Deferred tax:		
Relating to origination and reversal of temporary differences	361,406	439,995
Relating to changes in tax rates	(365,411)	-
Underprovision in prior years	3,864	-
	<u>(141)</u>	<u>439,995</u>
	<u>768,473</u>	<u>733,621</u>

Domestic current income tax is calculated at the statutory tax rate of 28% (2005: 28%) of the estimated assessable profit for the year. The domestic statutory tax rate will be reduced to 27% from the current year's rate of 28%, effective year of assessment 2007 and to 26% effective year of assessment 2008. The computation of deferred tax as at 31 December 2006 has reflected these changes.

**24. TAXATION (CONTD.)**

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:

	<b>Group</b>		<b>Company</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Profit/(loss) before taxation	9,400,364	5,573,066	9,900,833	(204,593)
Taxation at Malaysian statutory tax rate of 28% (2005: 28%)	2,632,102	1,560,458	2,772,233	(57,286)
Effects of changes in tax rates on opening balances of deferred tax	(339,831)	-	-	-
Deferred tax recognised at different tax rates	(25,580)	-	-	-
Income not subject to tax	-	-	(2,800,000)	-
Expenses not deductible for tax purposes	263,192	185,313	27,767	57,286
Utilisation of current year's reinvestment allowance	(1,766,910)	(1,012,150)	-	-
Underprovision of deferred tax in prior year	3,864	-	-	-
Withholding tax	1,636	-	-	-
Tax expense for the year	768,473	733,621	-	-

Unutilised reinvestment allowance is analysed as follows:

	<b>Group</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>
Unutilised reinvestment allowance carried forward	2,724,000	5,708,000

**25. DIVIDENDS**

Subsequent to balance sheet date, the Company declared an interim dividend of 1.2 sen, tax exempt on 175,000,012 ordinary shares amounting to RM2,100,000 in respect of the financial year ended 31 December 2006. The interim dividend were declared on 9 January 2007 and paid on 13 February 2007.

**26. 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.

	<b>Group</b>	
	<b>2006</b>	<b>2005</b>
Net profit for the year (RM)	8,631,891	4,839,445
Weighted average number of ordinary shares in issue	175,000,012	156,301,381
Basic earnings per share (sen)	4.9	3.1

**27. SIGNIFICANT RELATED PARTY TRANSACTIONS**

- (a) In addition to the transactions detailed elsewhere in the financial statements, the Group and the Company entered into the following transactions with related parties during the financial year:

	<b>Group</b>		<b>Outstanding balances</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Sales to Seong Chan Sauce & Foodstuff Sdn. Bhd.	(652,861)	(580,035)	(187,721)	(136,522)
Rent payable to Excellent Chemical Industrial Sdn. Bhd.	24,000	24,000	600	-

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, who are directors of the Company, have financial interests. Subsequent to balance sheet date, Dato' Mohd Nor Bin Abdul Wahid is a director and has financial interests in Excellent Chemical Industrial Sdn. Bhd.

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.

- (b) Compensation of key management personnel

The key management personnels comprised mainly executive directors of the Company whose remuneration are disclosed in Note 21.

**28. COMMITMENTS**

	<b>Group</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>
<b>Capital expenditure:</b>		
Approved and contracted for	<u>1,009,009</u>	<u>2,017,000</u>

**29. CONTINGENT LIABILITIES - UNSECURED**

	<b>Company</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM</b>	<b>RM</b>
Guarantees to licensed financial institutions in respect of credit facilities granted to a subsidiary company	<u>78,596,000</u>	<u>58,456,000</u>

**30. 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 operates 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 debt 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 Note 12.

**(c) Foreign Currency Risk**

The Group is exposed to transactional currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States Dollars (USD) and Singapore Dollars (SGD). Foreign exchange exposures in transactional currencies other than functional currencies of the operating entities are kept to an acceptable level.

**30. FINANCIAL INSTRUMENTS (CONTD.)****(c) Foreign Currency Risk (Contd.)**

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

<b>Functional currency of the Group is Ringgit Malaysia</b>	<b>Singapore Dollar RM</b>
<b>At 31 December 2006</b>	
Receivables	<u>905,186</u>
<b>At 31 December 2005</b>	
Receivables	<u>818,590</u>

As at balance sheet date, the Group had entered into forward foreign exchange contracts with the following notional amounts and maturities:

	<b>Currency</b>	<b>Maturities Within 1 Year RM</b>	<b>Total Notional Amount RM</b>
<b>At 31 December 2006</b>			
Forwards used to hedge trade receivables	USD	<u>-</u>	<u>-</u>
<b>At 31 December 2005</b>			
Forwards used to hedge trade receivables	USD	<u>3,479,065</u>	<u>3,479,065</u>

**(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.

### 30. FINANCIAL INSTRUMENTS (CONTD.)

#### (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.

#### (f) Fair Values

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.

The fair values of all other financial assets and liabilities of the Group and of the Company as at 31 December 2006 are not materially different from their carrying values.

### 31. SEGMENT INFORMATION

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

**THREE-A RESOURCES BERHAD**  
**(Incorporated in Malaysia)**

**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

	Share capital RM	Share premium <sup>(1)</sup> RM	Retained earnings <sup>(2)</sup> RM	Total RM
<b>Group</b>				
<b>At 1 January 2005</b>				
As previously stated	28,000,002	794,621	8,812,669	37,607,292
Prior year adjustment on derecognition of deferred tax on reinvestment allowance (Note 19)	-	-	(1,380,142)	(1,380,142)
<b>At 1 January 2005 (restated)</b>	<b>28,000,002</b>	<b>794,621</b>	<b>7,432,527</b>	<b>36,227,150</b>
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)	-
<b>At 31 December 2005 (restated)</b>	<b>35,000,003</b>	<b>733,629</b>	<b>5,271,971</b>	<b>41,005,603</b>
<b>At 1 January 2006</b>				
As previously stated	35,000,003	733,629	6,652,113	42,385,745
Prior year adjustment on derecognition of deferred tax on reinvestment allowance (Note 19)	-	-	(1,380,142)	(1,380,142)
<b>At 1 January 2006 (restated)</b>	<b>35,000,003</b>	<b>733,629</b>	<b>5,271,971</b>	<b>41,005,603</b>
Effects of adopting FRS 3	-	-	4,553,656	4,553,656
	35,000,003	733,629	9,825,627	45,559,259
Net profit for the year	-	-	8,631,891	8,631,891
<b>At 31 December 2006</b>	<b>35,000,003</b>	<b>733,629</b>	<b>18,457,518</b>	<b>54,191,150</b>

**THREE-A RESOURCES BERHAD**  
**(Incorporated in Malaysia)**

**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTD.)**

	Share capital RM	Share premium <sup>(1)</sup> RM	Revaluation reserve <sup>(1)</sup> RM	Accumulated losses/ retained earnings <sup>(2)</sup> RM	Total RM
<b>Company</b>					
<b>At 1 January 2005</b>					
As previously stated	28,000,002	794,621	13,797,326	(431,001)	42,160,948
Effect of adopting FRS 127	-	-	(13,797,326)	-	(13,797,326)
<b>At 1 January 2005 (restated)</b>					
	28,000,002	794,621	-	(431,001)	28,363,622
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	7,000,001	-	(7,000,001)	-	-
Effect of adopting FRS 127	-	-	7,000,001	(7,000,001)	-
<b>At 31 December 2005 (restated)</b>					
	35,000,003	733,629	-	(7,635,595)	28,098,037
<b>At 1 January 2006</b>					
As previously stated	35,000,003	733,629	6,797,325	(635,594)	41,895,363
Effect of adopting FRS 127	-	-	(6,797,325)	(7,000,001)	(13,797,326)
<b>At 1 January 2006 (restated)</b>					
	35,000,003	733,629	-	(7,635,595)	28,098,037
Net profit for the year	-	-	-	9,900,833	9,900,833
<b>At 31 December 2006</b>					
	35,000,003	733,629	-	2,265,238	37,998,870

**Note:**

- (1) Non-distributable  
(2) Distributable

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

## 3. PROPERTY, PLANT AND EQUIPMENT

<b>Group</b>	<b>Factory and office buildings RM</b>	<b>Plant and machinery, tools and implements RM</b>	<b>Furniture and fittings and equipment RM</b>	<b>Renovations and electrical installations RM</b>	<b>Motor vehicles RM</b>	<b>Capital work-in- progress RM</b>	<b>Total RM</b>
<b>Cost</b>							
At 1 January 2005	12,767,673	26,375,287	1,771,998	946,515	1,628,264	5,005,327	48,495,064
Additions	1,288,523	1,990,673	33,959	96,345	-	1,521,358	4,930,858
Reclassification	3,014,456	991,395	-	-	-	(4,005,851)	-
At 31 December 2005	17,070,652	29,357,355	1,805,957	1,042,860	1,628,264	2,520,834	53,425,922
Additions	729,829	2,112,128	55,011	35,693	1,791,669	3,842,745	8,567,075
Reclassification	-	1,659,516	-	-	-	(1,659,516)	-
Transfer *	-	-	-	-	-	(861,318)	(861,318)
At 31 December 2006	17,800,481	33,128,999	1,860,968	1,078,553	3,419,933	3,842,745	61,131,679
<b>Accumulated Depreciation</b>							
At 1 January 2005	1,283,264	7,332,746	540,380	474,984	797,655	-	10,429,029
Charge for the year	338,023	1,510,459	182,167	106,996	149,652	-	2,287,297
At 31 December 2005	1,621,287	8,843,205	722,547	581,980	947,307	-	12,716,326
Charge for the year	356,003	1,698,336	182,800	111,780	220,134	-	2,569,053
At 31 December 2006	1,977,290	10,541,541	905,347	693,760	1,167,441	-	15,285,379
<b>Net Carrying Amount</b>							
At 31 December 2006	15,823,191	22,587,458	955,621	384,793	2,252,492	3,842,745	45,846,300
At 31 December 2005	15,449,365	20,514,150	1,083,410	460,880	680,957	2,520,834	40,709,596

\* Being accumulated costs incurred for land improvements on leasehold land transferred to Prepaid Land Lease Payments (Note 4).