10. FINANCIAL INFORMATION

10.1 PROFORMA CONSOLIDATED FINANCIAL INFORMATION

(Prepared for inclusion in this Prospectus)

PROFORMA CONSOLIDATED FINANCIAL INFORMATION OF THE FCB GROUP, TOGETHER WITH THE NOTES AND ASSUMPTIONS THERETO, ARE AS FOLLOWS:

(A) PROFORMA CONSOLIDATED INCOME STATEMENTS

FCB GROUP
PROFORMA CONSOLIDATED INCOME STATEMENTS
FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2003, 2004 AND 2005

	2003 RM	2004 RM	2005 RM
Revenue	28,506,103	48,892,063	63,863,315
Cost of sales (Note)	(17,273,904)	(29,134,695)	(41,622,755)
Gross profit	11,232,199	19,757,368	22,240,560
Depreciation of property, plant and equipment	(379,651)	(782,134)	(430,548)
Staff costs	(3,191,230)	(5,179,119)	(4,948,148)
Research and development expenses	(744,024)	(1,568,981)	(1,706,180)
Administrative expenses	(1,998,084)	(4,412,331)	(5,433,417)
Other income	293,415	385,796	1,301,742
Profit from operations	5,212,625	8,200,599	11,024,009
Gain on disposal of subsidiary companies	-	175,667	-
Finance costs	(355,163)	(518,767)	(993,168)
Share in results of associated company	6,520	(90,690)	6,360
Net profit before tax	4,863,982	7,766,809	10,037,201
Income tax expense	(920,030)	(1,701,679)	(2,027,826)
Profit after tax before minority interests	3,943,952	6,065,130	8,009,375
Minority interests	(6,921)	(61,845)	(100,861)
Net profit for the year	3,937,031	6,003,285	7,908,514

Note: Included in cost of sales is depreciation charge for the year of RM2,140,730, RM2,903,848 and RM4,969,277 for 2003, 2004 and 2005 respectively.

10. FINANCIAL INFORMATION *(Cont'd)*

(B) PROFORMA CONSOLIDATED BALANCE SHEET

FCB GROUP
PROFORMA CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 2005

	2005 RM
NON-CURRENT ASSETS	
Property, plant and equipment	49,969,567
Investment in associated company	745,709
Goodwill on consolidation	9,276,566
Intangible assets	430,065
CURRENT ASSETS	
Inventories	3,373,098
Trade receivables	20,358,134
Other receivables and prepaid expenses	2,387,720
Cash and bank balances	4,693,605
	30,812,557
CURRENT LIABILITIES	
Trade payables	7,827,194
Other payables	3,991,959
Bank borrowings (secured) – current portion	5,491,261
Deferred income – current portion	63,192
Hire-purchase payables – current portion	1,934,563
Tax liabilities	2,433,565
	21,741,734
NET CURRENT ASSETS	9,070,823
LONG-TERM AND DEFERRED LIABILITIES	
Bank borrowings (secured) – non-current portion	(13,766,370)
Deferred income – non-current portion	(124,318)
Hire-purchase payables – non-current portion	(4,174,693)
Deferred tax liabilities	(2,603,502)
	(20,668,883)
	48,823,847
Represented by:	
Issued capital	29,123,280
Reserves	18,623,284
SHAREHOLDERS' EQUITY	47,746,564
MINORITY INTERESTS	1,077,283
	48,823,847

(C) PROFORMA CONSOLIDATED CASH FLOW STATEMENT

FCB GROUP
PROFORMA CONSOLIDATED CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005

	2005 RM
Profit before tax	10,037,201
Adjustments for non-cash items:	
Share in results of associated company	(6,360)
Government grant	(873,933)
Interest income	(29,492)
Interest expense	993,168
Depreciation of property, plant and equipment	5,399,825
Translation difference	88,042
Amortisation of intangible assets	159,341
Profit on disposal of property, plant and equipment	(166,819)
Operating profit before changes in working capital	15,600,973
Changes in working capital:	
Inventories	(2,262,537)
Trade receivables	(8,977,438)
Other receivables and prepaid expenses	(374,067)
Trade payables	4,518,028
Other payables and accrued expenses	(1,732,692)
Amounts due to directors	(489,746)
	(9,318,452)
Cash generated from operations	6,282,521
Interest income received	29,492
Interest expense paid	(993,168)
Income tax paid	(530,530)
Net cash flows from operating activities	4,788,315
Cash flows from investing activities:	
Acquisition of property, plant and equipment	(9,315,389)
Proceeds from sales of property, plant and equipment	246,623
Net cash flows used in investing activities	(9,068,766)

(Forward)

	2005 RM
Cash flows from financing activities:	
Repayment of term loans	(1,770,939)
Repayment of hire-purchase payables	(1,617,888)
Proceeds of term loans	7,006,579
Government grant	1,064,985
Net cash flows from financing activities	4,682,737
Net change in cash and cash equivalents	402,286
Cash and cash equivalents at the beginning of year	838,312
Effect of exchange differences	(40,511)
Cash and cash equivalents at the end of year	1,200,087
Cash and cash equivalents consist of the following:	
Cash and bank balances	4,693,605
Bank overdraft	(3,493,518)
	1,200,087

(D) PROFORMA CONSOLIDATED ADJUSTMENTS

(i) Proforma Consolidated Income Statements

The following adjustments have been made in arriving at the proforma consolidated income statements:

Year Ended 31 December 2003

	FCB Unaudited* RM	Adjustments - Acquisition of FS** RM	Proforma RM
Revenue	-	28,506,103	28,506,103
Cost of sales	-	(17,273,904)	(17,273,904)
Gross profit	-		11,232,199
Depreciation of property, plant and equipment	-	(379,651)	(379,651)
Staff costs	-	(3,191,230)	(3,191,230)
Research and development expenses	-	(744,024)	(744,024)
Administrative expenses	-	(1,998,084)	(1,998,084)
Other income	-	293,415	293,415
Profit from operations	-		5,212,625
Finance costs	-	(355,163)	(355,163)
Share in results of associated company	-	6,520	6,520
Profit before tax	-		4,863,982
Income tax expense	-	(920,030)	(920,030)
Profit after tax before minority interests	-		3,943,952
Minority interests	-	(6,921)	(6,921)
Net profit for the year	-		3,937,031

* FCB was incorporated on 29 April 2004, accordingly, no financial statements have been drawn up for the year ended 31 December 2003.

** The adjustments made represent the income statement for the year ended 31 December 2003 of FS and of its subsidiary companies to be acquired. Significant inter-company transations are eliminated.

Year Ended 31 December 2004

	FCB Audited RM	Adjustments - Acquisition of FS* RM	Proforma RM
Revenue	-	48,892,063	48,892,063
Cost of sales	-	(29,134,695)	(29,134,695)
Gross profit	-		19,757,368
Depreciation of property, plant and equipment	-	(782,134)	(782,134)
Staff costs	-	(5,179,119)	(5,179,119)
Research and development expenses	-	(1,568,981)	(1,568,981)
Administrative expenses	(5,218)	(4,407,113)	(4,412,331)
Other income	-	385,796	385,796
Profit/(Loss) from operations	(5,218)		8,200,599
Gain on disposal of subsidiary companies	-	175,667	175,667
Finance costs	-	(518,767)	(518,767)
Share in results of associated company	-	(90,690)	(90,690)
Profit/(Loss) before tax	(5,218)		7,766,809
Income tax expense	-	(1,701,679)	(1,701,679)
Profit/(Loss) after tax before minority interests	(5,218)		6,065,130
Minority interests	-	(61,845)	(61,845)
Net profit/(loss) for the year	(5,218)		6,003,285

* The adjustments made represent the income statement for the year ended 31 December 2004 of FS and of its subsidiary companies to be acquired. Significant inter-company transactions are eliminated.

Year Ended 31 December 2005

	FCB Audited RM	Adjustments - Acquisition Of FS* RM	Proforma RM
Revenue	-	63,863,315	63,863,315
Cost of sales	-	(41,622,755)	(41,622,755)
Gross profit	-		22,240,560
Depreciation of property, plant and equipment	-	(430,548)	(430,548)
Staff costs	-	(4,948,148)	(4,948,148)
Research and development expenses	-	(1,706,180)	(1,706,180)
Administrative expenses	(4,000)	(5,429,417)	(5,433,417)
Other income	-	1,301,742	1,301,742
Profit/(loss) from operations	(4,000)		11,024,009
Finance costs	-	(993,168)	(993,168)
Share in results of associated company	-	6,360	6,360
Profit/(Loss) before tax	(4,000)		10,037,201
Income tax expense	-	(2,027,826)	(2,027,826)
Profit/(Loss) after tax before minority interests	(4,000)		8,009,375
Minority interests	-	(100,861)	(100,861)
Net profit/(loss) for the year	(4,000)		7,908,514

* The adjustments made represent the income statement for the year ended 31 December 2005 of FS and of its subsidiary companies to be acquired. Significant inter-company transactions are eliminated.

(ii) Proforma Consolidated Balance Sheet

The following adjustments have been made in arriving at the proforma consolidated balance sheet:

As Of 31 December 2005

	FCB Audited RM	Adjustments - Acquisition Of FS* RM	Proforma RM
NON-CURRENT ASSETS			
Property, plant and equipment	-	49,969,567	49,969,567
Investment in associated company	-	745,709	745,709
Goodwill on consolidation	-	9,276,566	9,276,566
Intangible assets	-	430,065	430,065
CURRENT ASSETS			
Inventories	-	3,373,098	3,373,098
Trade receivables	-	20,358,134	20,358,134
Other receivables and prepaid expenses	181,757	2,205,963	2,387,720
Cash on hand and bank balances	-	4,693,605	4,693,605
	181,757		30,812,557
CURRENT LIABILITIES			
Trade payables	-	7,827,194	7,827,194
Other payables and accrued expenses	190,973	3,800,986	3,991,959
Bank borrowings (secured) – current portion	-	5,491,261	5,491,261
Deferred income – current portion	-	63,192	63,192
Hire-purchase payables – current portion	-	1,934,563	1,934,563
Tax liabilities	-	2,433,565	2,433,565
	190,973		21,741,734
NET CURRENT ASSETS/(LIABILITIES)	(9,216)		9,070,823
LONG-TERM AND DEFERRED LIABILITIES			
Bank borrowings (secured) – non-current portion	-	(13,766,370)	(13,766,370)
Deferred income – non-current portion	-	(124,318)	(124,318)
Hire-purchase payables – non-current portion	-	(4,174,693)	(4,174,693)
Deferred tax liabilities	-	(2,603,502)	(2,603,502)
	-		(20,668,883)
	(9,216)		48,823,847

(Forward)

	FCB Audited RM	Adjustments - Acquisition Of FS* RM	Proforma RM
Represented by:			
Issued capital	2	29,123,278	29,123,280
Reserves	(9,218)	18,632,502	18,623,284
SHAREHOLDERS' EQUITY/(CAPITAL DEFICIENCY)	(9,216)		47,746,564
MINORITY INTERESTS	-	1,077,283	1,077,283
	(9,216)		48,823,847

Note: Goodwill on consolidation represents the excess of the cost of investment in FS of RM29,123,278 over the net assets of FS and its subsidiary companies as of 1 January 2003.

* The adjustments made represent the balance sheet as of 31 December 2005 of FS and of its subsidiary companies to be acquired. Significant inter-company balances are eliminated.

(iii) Proforma Consolidated Cash Flow Statement

The following adjustments have been made in arriving at the proforma consolidated cash flow statement:

For The Year Ended 31 December 2005

	FCB Audited RM	Adjustments - Acquisition Of FS* RM	Proforma RM
Profit before tax	(4,000)	10,041,201	10,037,201
Adjustments for non-cash items:			
Share in results of associated company	-	(6,360)	(6,360)
Government grant	-	(873,933)	(873,933)
Interest income	-	(29,492)	(29,492)
Interest expense	-	993,168	993,168
Depreciation of property, plant and equipment	-	5,399,825	5,399,825
Translation difference	-	88,041	88,042
Amortisation of intangible assets	-	159,341	159,341
Profit on disposal of property, plant and equipment	-	(166,819)	(166,819)
Operating profit/(loss) before changes in working capital	(4,000)		15,600,973
Changes in working capital:			
Inventories	-	(2,262,537)	(2,262,537)
Trade receivables	-	(8,977,438)	(8,977,438)
Other receivables and prepaid expenses	(181,757)	(192,310)	(374,067)
Trade payables	-	4,518,028	4,518,028
Other payables	185,757	(1,918,449)	(1,732,692)
Amounts due to directors	-	(489,746)	(489,746)
	-		(9,318,452)
Cash generated from operations	-		6,282,521
Interest income received	-	29,492	29,492
Interest expense paid	-	(993,168)	(993,168)
Income tax paid	-	(530,530)	(530,530)
Net cash flows from operating activities	-		4,788,315
Cash flows from investing activities:			
Acquisition of property, plant and equipment	-	(9,315,389)	(9,315,389)
Proceeds from disposal of property, plant and equipment	-	246,623	246,623
Net cash flows used in investing activities	-		(9,068,766)

(Forward)

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16 JUN 2006
Deloitte & Touche
Kuala Lumpur/Petaling Jaya

	FCB Audited RM	Adjustments - Acquisition Of FS* RM	Proforma RM
Cash flows from financing activities:			
Repayment of term loans	-	(1,770,939)	(1,770,939)
Repayment of hire-purchase payables	-	(1,617,888)	(1,617,888)
Proceeds of term loans	-	7,006,579	7,006,579
Government grant	-	1,064,985	1,064,985
Net cash flows from financing activities	-		4,682,737
Net change in cash and cash equivalents	-	402,286	402,286
Cash and cash equivalents at the beginning of year	-	838,312	838,312
Effect of exchange differences	-	(40,511)	(40,511)
Cash and cash equivalents at the end of year	-		1,200,087

* The adjustments made represent the cash flow statement for the year ended 31 December 2005 of FS and of its subsidiary companies to be acquired. Significant inter-company transactions and balances are eliminated.

(E) PROFORMA STATEMENT OF ASSETS AND LIABILITIES OF THE FCB GROUP AS OF 31 DECEMBER 2005

The proforma statement of assets and liabilities of the FCB Group has been prepared for illustrative purposes only based on the same bases and assumptions used in the preparation of proforma consolidated balance sheet of the FCB Group as of 31 December 2005.

	Note	2005 RM
NON-CURRENT ASSETS		
Property, plant and equipment	3	49,969,567
Investment in associated company	4	745,709
Goodwill on consolidation		9,276,566
Intangible assets	5	430,065
CURRENT ASSETS		
Inventories	6	3,373,098
Trade receivables	7	20,358,134
Other receivables and prepaid expenses	8	2,387,720
Cash and bank balances	9	4,693,605
		30,812,557
CURRENT LIABILITIES		
Trade payables	10	7,827,194
Other payables	11	3,991,959
Bank borrowings (secured) – current portion	12	5,491,261
Deferred income – current portion	13	63,192
Hire-purchase payables – current portion	14	1,934,563
Tax liabilities		2,433,565
		21,741,734
NET CURRENT ASSETS		9,070,823
LONG-TERM AND DEFERRED LIABILITIES		
Bank borrowings (secured) – non-current portion	12	(13,766,370)
Deferred income – non-current portion	13	(124,318)
Hire-purchase payables – non-current portion	14	(4,174,693)
Deferred tax liabilities	15	(2,603,502)
		(20,668,883)
		48,823,847

(Forward)

	Note	2005 RM
Represented by:		
Issued capital	16	29,123,280
Reserves	17	18,623,284
SHAREHOLDERS' EQUITY		47,746,564
MINORITY INTERESTS		1,077,283
		48,823,847

The above statement of assets and liabilities should be read in conjunction with the accompanying Notes.

FCB GROUP
NOTES TO THE PROFORMA STATEMENT OF ASSETS AND LIABILITIES
AS OF 31 DECEMBER 2005

1. BASIS OF PREPARATION

The proforma statement of assets and liabilities of the FCB Group is prepared based on the audited statutory financial statements of FCB, FS, Frontken Malaysia Sdn Bhd, Frontken Philippines Inc. and Frontken-AMT Engineering Sdn Bhd for the period under review. The audited statutory financial statements of these companies have been prepared under the historical cost convention.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

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

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

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

Goodwill on consolidation

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

For the purpose of impairment testing, goodwill is allocated to each of the group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit prorata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in subsequent period.

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

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

Income tax expense

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the group intends to settles its current tax assets and liabilities on a net basis.

Foreign currencies and translation

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

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

Property, plant and equipment and depreciation

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

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

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

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

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

Investment in subsidiary companies

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

Investment in associated company

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

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

Intangible assets

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

Impairment of assets

At each balance sheet date, the FCB Group reviews the carrying amounts of property, plant and equipment, investment in associated company and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

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

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

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

Trade receivables

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

Related parties

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

Trade and other payables

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

Provisions

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

Assets acquired under hire-purchase arrangements

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

Deferred income

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

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

Cash and cash equivalents

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

3. PROPERTY, PLANT AND EQUIPMENT

2005	Cost RM	Accumulated depreciation RM	Net book value RM
Leasehold factories	14,779,874	2,043,207	12,736,667
Freehold land	1,863,054	-	1,863,054
Freehold buildings	849,986	50,998	798,988
Factory renovation	6,663,887	1,092,401	5,571,486
Plant and machinery	37,784,849	10,983,958	26,800,891
Motor vehicles	2,362,483	961,630	1,400,853
Office equipment and furniture	1,817,981	1,020,353	797,628
Total	66,122,114	16,152,547	49,969,567

Included in plant and machinery of the FCB Group are the followings:

	2005 RM
Research and development equipment	1,908,918
Capital work-in-progress	121,285

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

	2005 RM
Plant and machinery	6,298,985
Motor vehicles	1,335,192
Office equipment and furniture	99,884
	7,734,061

4. INVESTMENT IN ASSOCIATED COMPANY

	2005 RM
Unquoted shares – at cost	769,984
Share in post-acquisition loss	(24,275)
	745,709

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

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

5. INTANGIBLE ASSETS

	2005 RM
License fees, at cost	781,936
Accumulated amortisation	(351,871)
At end of year	430,065

6. INVENTORIES

	2005 RM
At cost:	
Consumables	1,593,890
Work-in-progress	1,779,208
	3,373,098

7. TRADE RECEIVABLES

	2005 RM
Outside parties	20,240,173
Less: Allowance for doubtful debts	(268,092)
	19,972,081
Related party	170,480
Associated company	215,573
	20,358,134

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

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

	2005 RM
United States dollars	1,406,907
Ringgit Malaysia	102,862
Euro	82,143

8. OTHER RECEIVABLES AND PREPAID EXPENSES

	2005 RM
Other receivables	1,232,508
Refundable deposits	807,111
Prepaid expenses	210,506
	2,250,125
Associated company	137,595
	2,387,720

Amount due from associated company is unsecured, interest free and repayable on demand.

9. CASH AND BANK BALANCES

	2005 RM
Cash on hand	25,225
Cash at banks	4,668,380
	4,693,605

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

	2005 RM
United States dollars	2,454,038

10. TRADE PAYABLES

	2005 RM
Outside parties	7,714,620
Related party	112,574
	7,827,194

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

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

	2005 RM
United States dollars	2,443,243
Singapore dollars	94,480
Ringgit Malaysia	10,087
Euro	36,521

11. OTHER PAYABLES

	2005 RM
Other payables	3,720,069
Amount due to defined contributions plans	271,890
	3,991,959

12. BANK BORROWINGS - SECURED

	2005 RM
Bank overdraft	3,493,518
Bank loans	15,764,113
	19,257,631
The borrowings are repayable as follows:	
On demand or within one year	5,491,261
In the second year	2,024,410
In the third year	2,132,730
In the fourth year	2,224,812
After five years	7,384,418
	19,257,631
Less: Amounts due for settlement within 12 months (shown under current liabilities)	(5,491,261)
Amounts due after 12 months	13,766,370

<u>FS</u>

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

The bank borrowings of FS are denominated in Singapore dollars.

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

(ii) Bank loans are arranged at floating rates, thus exposing the FCB Group to cash flow interest rate risk. FS has four principal bank loans:

(a) a loan of RM4,233,027. The loan was raised on 13 July 2001. Repayments commenced in August 2001 and will continue until July 2013. The loan carries interest at rates ranging from 2.65% to 3.50% per annum.

(b) a loan of RM3,914,139. The loan was raised on 16 June 2004. Repayments commenced in August 2004 and will continue until June 2014. The loan carries interest at rates ranging from 2.65% to 3.50% per annum.

(c) a loan of RM3,189,028. The loan was raised on 17 August 2004. Repayments commenced in March 2005 and will continue until February 2010. The loan carries interest at rates ranging from 2.65% to 3.50% per annum.

(d) a loan of RM2,958,733. The loan was raised on 1 November 2004. Repayments commenced in May 2005 and will continue until April 2017. The loan carries interest at rates ranging from 2.65% to 3.50% per annum.

Other subsidiary company

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

As of 31 December 2005, the FCB Group has available RM6,072,315 of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

13. DEFERRED INCOME

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

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

14. HIRE-PURCHASE PAYABLES

	2005 RM
Minimum payments payable:	
Within one year	2,137,594
Between two to five years	4,434,778
More than five years	213,542
	6,785,914
Less: Finance charges allocated to future periods	(676,658)
Principal outstanding	6,109,256
Payable as follows:	
Within one year	1,934,563
Between two to five years	3,978,414
More than five years	196,279
More than one year	4,174,693
	6,109,256

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

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

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

15. DEFERRED TAX LIABILITIES

The deferred tax liabilities represent the tax effects of temporary differences in respect of the following:

	2005 RM
Property, plant and equipment	2,773,564
Unabsorbed capital allowances	(63,002)
Others	(107,060)
	2,603,502

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

16. SHARE CAPITAL

	2005 RM
Authorised:	
Ordinary shares of RM0.10 each	50,000,000
Issued and fully paid:	
Ordinary shares of RM0.10 each	
At beginning of year	2
Assumed issued during the year	29,123,278
At end of year	29,123,280

17. RESERVES

	2005 RM
Unappropriated profit	17,910,347
Translation adjustment	712,937
	18,623,284

18. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	2005 RM
Cash and bank balances	4,693,605
Bank overdraft	(3,493,518)
	1,200,087

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1 6 JUN 2006

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19. MANAGEMENT OF FINANCIAL RISKS

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

(i) **Interest rate risk**

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

Information relating to the FCB group's interest rate exposure is disclosed in Notes 12 and 14.

(ii) **Credit risk**

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

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

(iii) **Liquidity risk**

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

(iv) **Foreign exchange risk**

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

(v) **Fair value**

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

20. CAPITAL COMMITMENTS

(a) The FCB Group has committed and contracted for the purchase of a property, plant and equipment of approximately RM1,230,839.

(b) Rental and lease expenses for all operating leases during the year amounted to RM7,214,077 for the FCB Group.

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

	2005 **RM**
Within one year	582,193
Between two and five years	1,841,044
After five years	4,657,100
	7,080,337

21. SIGNIFICANT EVENTS

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

(b) On 30 November 2005, 9 December 2005 and 2 May 2006 the Securities Commission ("SC") has approved the abovementioned listing application, subject to FCB fulfilling certain requirements as outlined by the SC.

22. SUBSEQUENT EVENTS

(a) On 3 January 2006, the Group accepted the letter of offer for the lease of land held under H.S. (D) 1600, P.T. 1923, Mukim Padang China, Daerah Kulim, Kedah for a contract price of approximately RM1,563,870.

(b) On the 7 March 2006, the Group accepted the letter of offer for the Industrial Hire Purchase-i Facility. This equipment financing amounted to approximately RM5,585,250 is under a corporate guarantee by FS.

(c) On 31 March 2006, the board of directors approved the transfer of 9,093,984 shares in FS to FCB. As a result, FS became a wholly-owned subsidiary company of FCB.

23. SUBSIDIARY COMPANIES TO BE ACQUIRED

Details of subsidiary companies of FCB to be acquired are as follows:

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

@ The financial statements of this subsidiary company are audited by Deloitte & Touche, Singapore.

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

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

10.2 REPORTING ACCOUNTANTS' LETTER ON THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION

(Prepared for inclusion in this Prospectus)

Deloitte.

Deloitte & Touche (AF 0834)
Chartered Accountants
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1 Jalan SS 21/58
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16 June 2006

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

Dear Sirs,

FRONTKEN CORPORATION BERHAD ("FCB")
PROFORMA CONSOLIDATED FINANCIAL INFORMATION

We have reviewed the presentation of the proforma consolidated financial information of FCB and its subsidiary companies ("FCB Group"), which consists of proforma consolidated income statements for the three financial years ended 31 December 2003, 2004 and 2005, proforma consolidated balance sheet as of 31 December 2005, proforma consolidated cash flow statement for the year ended 31 December 2005 and proforma statement of assets and liabilities as of 31 December 2005, together with the notes and assumptions thereto prepared for illustrative purposes, for which the Directors of FCB are solely responsible, as set out in the Prospectus to be dated 22 June 2006 in conjunction with the listing of and quotation for the entire issued and paid-up share capital of FCB, comprising 475,000,000 ordinary shares of RM0.10 each ("FCB Shares") on the MESDAQ Market of Bursa Malaysia Securities Berhad ("Bursa Malaysia") which include the public issue of 118,750,000 new FCB Shares at an issue price of RM0.21 per FCB Share payable in full upon application.

FCB was incorporated on 29 April 2004 and it completed its acquisition of 9,093,984 ordinary shares of SGD1.00 each in Frontken (Singapore) Pte. Ltd. ("FS"), representing the entire equity interest in FS, for a purchase consideration of RM29,123,278 satisfied by the issuance of 291,232,780 new FCB Shares on 31 March 2006. The abovementioned proforma consolidated financial information has been presented for illustrative purposes only to reflect the effects on the financial position, the financial results and cash flows of the FCB Group based on the assumption that the FCB Group has been in existence and the acquisition of FS has been completed on 1 January 2003.

With the foregoing explanations, in our opinion:

(a) The proforma consolidated financial information has been properly prepared:

   (i) on the basis and assumptions of preparation as stated hereunder and such basis is consistent with the accounting policies adopted by FCB and its subsidiary companies; and

   (ii) based on the audited financial statements of FCB and its subsidiary companies for the three years ended 31 December 2003, 2004 and 2005 and such financial statements have been prepared in accordance with the applicable accounting standards of the countries in which the companies within the FCB Group are incorporated.

Deloitte & Touche

16 June 2006
Frontken Corporation Berhad
Page No 2

(b) each material adjustment made to the information used in the preparation of the proforma consolidated financial information is appropriate for the purpose of preparing the proforma consolidated financial information.

We understand that this report will be used solely for inclusion in the Prospectus in connection with the abovementioned corporate exercise. As such, this report should not be used or referred to, in whole or in part, for any other purposes without our prior written consent.

Yours very truly,

Deloitte & Touche

Enclosure

FRONTKEN CORPORATION BERHAD Co Reg No 651020-T

Suite 1603, 16th Floor, Wisma Lim Foo Yong, 86, Jalan Raja Chulan, 50200 Kuala Lumpur
Telephone : (603) 2732-1377 * Facsimile : (603) 2732-0338 * E-mail :fcb@frontken.com * Website : www.frontken.com

NOTES AND ASSUMPTIONS TO THE PROFORMA CONSOLIDATED FINANCIAL INFORMATION OF FRONTKEN CORPORATION BERHAD ("FCB") AND ITS SUBSIDIARY COMPANIES ("FCB Group")

The proforma consolidated financial information has been presented on the following bases and assumptions:

1. **Basis of Preparation**

The proforma consolidated financial information of the FCB Group, which consists of the following:

- Proforma consolidated income statements for the three financial years ended 31 December 2003, 2004 and 2005;
- Proforma consolidated balance sheet as of 31 December 2005;
- Proforma consolidated cash flow statement for the year ended 31 December 2005; and
- Proforma statement of assets and liabilities as of 31 December 2005,

has been prepared based on the accounting policies consistent with those adopted in the preparation of the statutory financial statements of FCB and of its subsidiary companies to be acquired.

For the purpose of preparation of proforma consolidated financial information, the audited financial statements of the foreign incorporated subsidiary companies to be acquired have been translated into Ringgit Malaysia as follows:

Revenue and expenses	-	at average rates for the respective years
Assets and liabilities	-	at respective year end rates
Share capital	-	at historical rates

2. **Bases and Assumptions**

FCB was incorporated on 29 April 2004 and it completed its acquisition of 9,093,984 ordinary shares of SGD1.00 each in Frontken (Singapore) Pte. Ltd. ("FS"), representing the entire equity interest in FS, for a purchase consideration of RM29,123,278 satisfied by the issuance of 291,232,780 new ordinary shares of RM0.10 each in FCB on 31 March 2006. The proforma consolidated financial information is prepared for illustrative purposes only to reflect what:

(i) The financial results of the FCB Group for the financial years ended 31 December 2003, 2004 and 2005 (the "Relevant Period") would have been if the FCB Group had been in existence at the beginning of the Relevant Period;

(ii) The financial position of the FCB Group as of 31 December 2005 would have been if the FCB Group had been in existence at the beginning of the Relevant Period; and

(iii) The cash flows of the FCB Group for the financial year ended 31 December 2005 would have been if the FCB Group had been in existence at the beginning of the Relevant Periods.

The proforma consolidated financial information has been prepared based on:

- Audited financial statements of FCB for the financial period 29 April 2004 (date of incorporation) to 31 December 2004 and financial year ended 31 December 2005;

- Audited financial statements of Frontken (Singapore) Pte. Ltd. ("FS") and Frontken Malaysia Sdn Bhd for the three financial years ended 31 December 2003, 2004 and 2005;

- Audited financial statements of Frontken Philippines Inc. for the financial period 25 November 2003 (date of incorporation) to 31 December 2004 and financial year ended 31 December 2005;

- Audited financial statements of Frontken (Thailand) Co., Ltd. for the financial period 19 May 2003 (date of incorporation) to 31 December 2003 and the two financial years ended 31 December 2004 and 2005; and

- Audited financial statements of Frontken-AMT Engineering Sdn Bhd for the financial period 13 May 2003 (date of incorporation) to 31 December 2003 and two financial years ended 31 December 2004 and 2005.

The abovementioned audited financial statements have been prepared in accordance with the applicable accounting standards of the countries in which the companies are incorporated.

On behalf of the Board of Directors,

WONG HUA CHOON
Director

SEE CHUAN SWEE
Director

16 JUN 2006

Stamped for the purpose of identification only with our letter/report dated

16 JUN 2006

Deloitte & Touche
Kuala Lumpur/Petaling Jaya

10.3 OPERATING AND FINANCIAL REVIEW

The following analysis of financial information should be read in conjunction with the proforma consolidated income statements as set out in Section 10.1 of this Prospectus.

Analysis of revenue and profits by companies

A breakdown of the Group's revenue by companies is set out below:

	<-------Years ended 31 December------->		
	2003	**2004**	**2005**
	RM'000	**RM'000**	**RM'000**
Revenue			
FS	28,108	44,814	53,219
FM	1,906	4,552	9,556
FAE	669	2,058	3,107
FP	-	1,047	1,971
	30,683	52,471	67,853
Less: Consolidation adjustments	(2,177)	(3,579)	(3,941)
Translation adjustments	-	-	(49)
	28,506	48,892	63,863
PBT			
FCB	-	(5)	(4)
FS	4,639	7,220	8,857
FM	192	370	780
FAE	26	240	369
FP	-	33	17
FT*	6	(91)	6
Less: Translation adjustments	-	-	12
	4,864	7,767	10,037
Net profit			
FCB	-	(5)	(4)
FS	3,752	5,768	7,092
FM	132	214	658
FAE	17	146	241
FP	-	33	17
FT*	5	(91)	6
	3,906	6,065	8,010
Less: Consolidation adjustments**	31	(62)	(100)
Translation adjustments	-	-	(1)
	3,937	6,003	7,909

Notes:

* *Being share of results and taxation of FT*

** *These relate to the accounting of MI's share of results*

Analysis of revenue by customers' industries

A breakdown of the Group's revenue by customers' industries is set out below:

	<-------Years ended 31 December------->					
	2003		**2004**		**2005**	
Revenue	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Industrial						
- Power & energy	2,658	9.3	8,038	16.4	15,388	24.0
- Oil & gas	5,341	18.8	9,264	18.9	8,264	13.0
- Petrochemical	4,710	16.5	4,682	9.6	6,457	10.1
- General	4,129	14.5	14,597	29.9	13,402	21.0
	16,838	59.1	36,581	74.8	43,511	68.0
Semiconductor	11,668	40.9	12,311	25.2	20,352	32.0
	28,506	100.0	48,892	100.0	63,863	100.0

Analysis of revenue by geographical regions

A breakdown of the Group's revenue by geographical regions is set out below. Revenue by geographical sale is categorised based on the location of the Group's customers.

	<-------Years ended 31 December------->					
	2003		**2004**		**2005**	
Revenue	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Singapore	22,830	80.1	31,802	65.0	39,328	61.6
Malaysia	5,644	19.9	14,128	28.9	22,740	35.6
Others*	32	-	2,962	6.1	1,795	2.8
	28,506	100.0	48,892	100.0	63,863	100.0

* *Included the Philippines, Indonesia, Thailand, Germany and Myanmar*

Although it is possible to break down the Group's revenue by customers' industries and geographical regions, it is not possible to segment profits with reasonable accuracy due to sharing of common costs such as operating overheads and administrative and selling expenses which cannot be directly attributable to a particular business segment. Analysis of profits by customers' industries and geographical regions are thus not presented.

Over the financial years under review, the FCB Group has maintained an overall upward trend in revenue. Revenue was generally derived from two (2) broad sectors, namely the industrial sector, which contributed more than half of the Group's revenue, and the semiconductor sector. In the industrial sector, the FCB Group has customers in the oil and gas sector, petrochemical and refineries sector, power and energy sector and others. In the semiconductor sector, the Group provides services to the front-end semiconductor manufacturing (wafer fabrication), storage media, flat panel display manufacturing and organic light-emitting diode industries.

In 2003, revenue from the semiconductor sector made up approximately 41% of the Group's total revenue, as compared to 23% in the previous year, due mainly to higher orders received from customers such as Showa Denko HD Singapore Pte Ltd and Ulvac Singapore Pte Ltd. The increase in revenue contribution from the semiconductor sector during the year was mainly attributed to the setting up of a new production facility for Thin Film Transistor / Liquid Crystal Display process kit recycling and continuous R&D efforts which led to more new customers being secured.

In the same year, revenue from the industrial sector declined from RM17.3 million in the previous year to RM16.8 million, making up 59% of the Group's total revenue. Apart from the higher revenue from the semiconductor sector, the lower revenue contribution from the industrial sector was due to the fact that most of the Group's customers in the power and energy sector had refurbished their power plants in the previous year.

The increase in revenue from the industrial sector in 2004 was mainly due to more services provided in the refurbishment of power plants of the Group's customers in the power and energy sector. Revenue growth over the years was supported by capital expenditure on the production facilities which saw FS, the core subsidiary, growing from a mere rented area of 4,000 square feet to 120,000 square feet leasehold factory today, equipped with advanced robotic coating systems and workshop completed with large conventional machine tools, overhead cranes, spraying and blasting chambers. At the same time, the Group also expanded regionally with the establishment of its plants in Malaysia in 2002.

In 2005, higher revenue was generated from the power and energy sector as the Group provided more coating applications and more complete solutions to cover a wider scope of its customers' critical equipment requirements. Meanwhile in the semiconductor segment, revenue growth was fuelled by expansion in production capacity by the Group's customers.

The continuous upgrading of its facilities, coupled with the Group's expertise in developing new coating capabilities, has enabled the Group to offer a more comprehensive scope of services, thus enabling the Group to secure more orders from existing as well as new customers over the years. Continuous marketing efforts and promotion of product and services awareness by the Group has also contributed to the increase in revenue.

Gross margin remained relatively stable, except for 2005 which was mainly attributed to the delay in the implementation of additional production lines and expansion plan by some of the Group's customers in the semiconductor sector. While the Group has recruited more qualified engineers and skilled workers in anticipation of increased orders and business volumes during this period, the overheads associated therewith were not compensated by proportionate increase in revenue, thus translating into lower gross margin for the year.

The effective tax rates of FS, being the core subsidiary, in 2003 and 2004 were lower than the statutory tax rates due mainly to certain income tax incentives introduced by the Singapore Government. In 2005, the effective tax rates of FS, FM and FAE were slightly higher than their respective statutory tax rates due to certain non-deductible expenses.

10.4 TREND INFORMATION

The Directors believe that as global competition becomes more apparent, OEMs are creating competitive advantages by focusing on their core business and outsourcing many of the component fabrication and cleaning functions to external specialists, such as the FCB Group, who are able to provide more flexibility, efficiency and cost-effective solutions, thus helping the OEMs to achieve economies of scale with large volumes handled. The Directors therefore believe that the global outsourcing trend today provides increasing opportunities, and bodes well, for the FCB Group. In line with the positive outlook, the Directors anticipate the Group's overall volume of sales to increase.

Based on the Directors' experience and the current trend in the industry, the Directors do not expect significant fluctuation in the pricing of the Group's products and services or its cost of raw materials, direct labour and factory overhead. Nonetheless, in the event of cost fluctuations, the Directors believe that the Group is able to address such cost increases by adjusting its selling price.

Typically in the industry, customers do not place long term orders with the Group but usually issue firm purchase orders to the Group on short notice of about 3 to 14 days prior to commencement of job. The Group enters into confidentiality agreements with its strategic customers who disclose to the Group their future plans and their production planning and requirements. However, these information only provide guidance for the Group to plan its future capital expenditure and resources deployment. The customers do not have any contractual obligation to the Group and they can alter their plans and production forecast.

Due to the nature of the Group's business and in light of the short notice period prior to commencement of job, the Group has minimal confirmed but unfulfilled orders on hand or order book at any point in time, and the value of its order book at any particular date is not indicative of the Group's revenue for the succeeding period.

However, the Group has been receiving recurring orders from its existing customers and has enjoyed close working relationship with its customers, some of which have had business relationship with the Group for between two (2) and eight (8) years. The Directors believe that the Group will continue to have the support of its major customers in the future due to the long-term business relationship with them.

Save as disclosed above and in Sections 4.3 and 10.6 of this Prospectus, the Directors are not presently aware of any significant recent trends in production, sales and inventory, and cost and selling prices of products and services, or other known trends, demands, commitments or uncertainties that are reasonably likely to have a material effect on the Group's financial performance, position and operations, or that would cause the historical financial information disclosed in the Prospectus to be not indicative of its future operating results or financial condition. Please also refer to the risk associated with forward looking statements in Section 4.20 of this Prospectus.

10.5 LIQUIDITY AND CAPITAL RESOURCES

The Group's business growth has been financed through a combination of internal source of funds derived mainly from cash generated from operations as well as external sources of funds comprising mainly borrowings from financial institutions, capital contribution by shareholders and credits extended by suppliers.

As at 31 December 2005, the Group has consolidated cash and cash equivalents of approximately RM1.2 million, and undrawn committed borrowing facilities granted by financial institutions of approximately RM6.1 million. The Directors are of the opinion that after taking into account the cash flow position including the proceeds from the Rights Issue and Public Issue and the banking facilities available, the FCB Group will have adequate working capital for a period of twelve (12) months from the date of issuance of this Prospectus.

The following table is a condensed summary of FCB's proforma consolidated cash flows statement for the financial year ended 31 December 2005, which should be read in conjunction with Section 10.1 of this Prospectus:

	RM'000
Net cash generated from operating activities	4,788
Net cash used in investing activities	(9,069)
Net cash generated from financing activities	4,683
Net increase in cash and cash equivalents	402
Cash and cash equivalents at beginning of year	838
Effect of exchange differences	(40)
Cash and cash equivalents at end of year	1,200

Net cash used in investing activities in 2005 was mainly utilised for the acquisition of factory, setting up of new facilities in the plant, and the purchase of additional machinery and equipment for R&D and production. During the year, the Group acquired property, plant and equipment at an aggregate cost of RM13.4 million, of which RM4.1 million was acquired under hire-purchase arrangements.

Net cash generated from financing activities was mainly from the drawdown of term loans to finance the acquisition of the new factory in Singapore. The Group also recorded cash outflows of approximately RM3.4 million due to partial repayment of term loans and hire purchase payables.

Based on the above, the Group recorded a net increase in cash and cash equivalent of approximately RM0.4 million to RM1.2 million for the year ended 31 December 2005.

As at 31 December 2005, the total borrowings of FCB and its subsidiaries comprising overdraft, hire purchase, bridging loan and term loans, all of which are interest bearing, stood at RM25.4 million. Further details on the Group's borrowings are provided in Section 10.7(ii) of this Prospectus.

Trade receivables

As at 31 December 2005, the Group has outstanding trade receivables (net of allowance for doubtful debts) amounting to approximately RM20.4 million, representing an overall debtors' turnover of 116 days. The debtors' turnover, which was higher than the Group's normal credit period of 90 days, was mainly due to higher revenue recorded towards the end of the financial year, coupled with longer collection periods for certain customers.

Out of the total trade receivables of RM20.4 million, a total amount of RM16.2 million has been collected as at 30 April 2006. No further allowance for doubtful debts has been made for the remaining overdue receivables as the directors are confident that the amounts are collectible.

10.6 FACTORS AFFECTING FINANCIAL PERFORMANCE, POSITION AND OPERATIONS OF THE GROUP

Save as disclosed in Section 4 and Sections 10.3 to 10.5 of this Prospectus, the financial performance, position and operations of the Group are not materially affected by any of the following:

(i) Known trends, demands, commitments, events or uncertainties that have had, will result in or are reasonably likely to have a material favourable or unfavourable impact on financial performance, position and operations of the Group;

(ii) Material commitments for capital expenditure;

(iii) Unusual or infrequent events or transactions or any significant economic changes that materially affected the financial performance, position and operations of the Group;

(iv) Substantial increase in revenue attributed to prices, volume, or the introduction of new products services; and

(v) Known events, circumstances, trends, uncertainties and commitments that are reasonably likely to make the historical statements not indicative of future financial performance and position.

10.7 WORKING CAPITAL, BORROWINGS, MATERIAL LITIGATION, MATERIAL CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

(i) Working Capital

The Directors of the Company are of the opinion that after taking into account the cash flow position including the proceeds from the Rights Issue and Public Issue and the banking facilities available, the FCB Group will have adequate working capital for a period of twelve (12) months from the date of issuance of this Prospectus.

(ii) Borrowings

As at 31 December 2005, the total borrowings of FCB and subsidiaries amounted to approximately RM25.4 million, representing a gearing ratio of 0.66 times over the Group's shareholders' funds. These borrowings were utilised mainly for the acquisition of factories, setting up of new production facilities, and the purchase of additional machinery and equipment for R&D and production. An amount of RM3.0 million from the Public Issue will be utilised to repay bank borrowings which will reduce the Group's gearing.

The total borrowings of FCB and its subsidiaries as at 31 December 2005 comprising overdraft, hire purchase, bridging loan and term loans, all of which are interest bearing, are as follows:

	Domestic borrowings	Foreign currency denominated borrowings		Total
	RM'000	SGD'000	*RM'000	RM'000
Short term borrowings				
- Overdraft	-	1,564	3,494	3,494
- Hire purchase	531	628	1,403	1,934
- Bridging loan	-	32	71	71
- Term loan	161	790	1,765	1,926
	692	3,014	6,734	7,425
Long term borrowings				
- Hire purchase	1,184	1,339	2,992	4,176
- Term loan	1,236	5,609	12,531	13,767
	2,420	6,948	15,523	17,943
	3,112	9,962	22,256	25,368

* *Translated based on the exchange rate of RM2.2341 : SGD1.00*

Save as disclosed above, the Group does not have any other loan capital outstanding or created but unissued, mortgages or charges outstanding, convertible debt outstanding, guarantees or other borrowings on that date.

There has been no default on payments of either interest and/or principal sums in respect of any borrowings throughout the past financial year ended 31 December 2005 or the subsequent financial period thereof, up to 30 April 2006.

At present, the Group does not have a formal hedging policy with respect to its foreign exchange exposure and it does not enter into forward contracts. It will continue to monitor its foreign exchange exposure and may employ hedging instruments to manage its foreign exchange exposure should the need arise.

(iii) Material Litigation

As at 30 April 2006, neither FCB nor its subsidiaries are engaged in any litigation, claims or arbitrations, either as plaintiff or defendant, which have a material effect on the financial position of the Company or its subsidiaries and the Directors of the Company have no knowledge of any proceedings pending or threatened against the Company and its subsidiaries or any facts likely to give rise to any proceedings which might materially and adversely affect the financial position or business of the Company and its subsidiaries.

(iv) Material Capital Commitments

Save as disclosed below, as at 30 April 2006, the Group has not contracted any capital commitments, which, upon becoming enforceable, may have a material impact on the profit or net assets value of the Group:

	RM'000
Approved and contracted for	
- Construction of new plant in Kulim	4,465
Approved but not contracted for	
- Lease of land at Kulim Hi-Tech Park*	3,529

* *A Lease Agreement was entered into on 9 May 2006 to take up the lease of land. Further details on the Lease Agreement are provided in Section 5.3.15 of this Prospectus.*

The construction of new plant will be funded by proceeds from the Rights Issue and Public Issue. The consideration for the lease of land will be funded by proceeds from the Rights Issue and Public Issue, and internally generated funds.

(v) Contingent Liabilities

As at 30 April 2006, the Directors of FCB are not aware of any contingent liabilities, which, upon becoming enforceable, may have a material impact on the profit or net assets value of the Group.

10.8 PROFORMA CONSOLIDATED BALANCE SHEETS

The proforma consolidated balance sheets of the Company as at 31 December 2005 have been prepared for illustrative purposes only to show the effects of the restructuring scheme on the financial statements of the FCB Group as at 31 December 2005 had the transactions been completed on that date, and should be read with the notes and assumptions thereto.

(Prepared for inclusion in this Prospectus)

PROFORMA CONSOLIDATED BALANCE SHEETS OF THE FCB GROUP AS OF 31 DECEMBER 2005, TOGETHER WITH THE NOTES AND ASSUMPTIONS THERETO, ARE AS FOLLOWS:

	Audited financial statements as of 31 December 2005 RM	Adjustments RM	Proforma 1 Proforma after Acquisition RM	Adjustments RM	Proforma 2 Proforma after Proforma 1 and Rights Issue RM	Adjustments RM	Proforma 3 Proforma after Proforma 2 and Public Issue RM	Adjustments RM	Proforma 4 Proforma after Proforma 3 and utilisation of proceeds RM
Property, plant and equipment	-	49,969,567	49,969,567	-	49,969,567	-	49,969,567	21,657,000	71,626,567
Investment in associated company	-	745,709	745,709	-	745,709	-	745,709	-	745,709
Other intangible assets	-	430,065	430,065	-	430,065	-	430,065	-	430,065
Current Assets									
Inventories	-	3,373,098	3,373,098	-	3,373,098	-	3,373,098	-	3,373,098
Trade receivables	-	20,358,134	20,358,134	-	20,358,134	-	20,358,134	-	20,358,134
Other receivables and prepaid expenses	181,757	2,205,963	2,387,720	-	2,387,720	-	2,387,720	-	2,387,720
Cash and bank balances	-	4,693,605	4,693,605	6,501,720	11,195,325	24,937,500	36,132,825	(27,357,000)	8,775,825
	181,757		30,812,557		37,314,277		62,251,777		34,894,777

(Forward)

Stamped for the purpose of identification only with our letter/report dated 16 JUN 2006 Deloitte & Touche Kuala Lumpur/Petaling Jaya

10. FINANCIAL INFORMATION *(Cont'd)*

			Proforma 1		Proforma 2		Proforma 3		Proforma 4
	Audited financial statements as of 31 December 2005 RM	Adjustments RM	Proforma after Acquisition RM	Adjustments RM	Proforma after Proforma 1 and Rights Issue RM	Adjustments RM	Proforma after Proforma 2 and Public Issue RM	Adjustments RM	Proforma after Proforma 3 and utilisation of proceeds RM
Current Liabilities									
Trade payables	-	7,827,194	7,827,194	-	7,827,194	-	7,827,194	-	7,827,194
Other payables and accrued expenses	190,973	3,800,986	3,991,959	-	3,991,959	-	3,991,959	-	3,991,959
Bank borrowings	-	5,491,261	5,491,261	-	5,491,261	-	5,491,261	(3,000,000)	2,491,261
Deferred income	-	63,192	63,192	-	63,192	-	63,192	-	63,192
Hire-purchase payables - current portion	-	1,934,563	1,934,563	-	1,934,563	-	1,934,563	-	1,934,563
Tax liabilities	-	2,433,565	2,433,565	-	2,433,565	-	2,433,565	-	2,433,565
	190,973		21,741,734		21,741,734		21,741,734		18,741,734

(Forward)

10. FINANCIAL INFORMATION *(Cont'd)*

			Proforma 1		Proforma 2		Proforma 3		Proforma 4
	Audited financial statements as of 31 December 2005 RM	Adjustments RM	Proforma after Acquisition RM	Adjustments RM	Proforma after Proforma 1 and Rights Issue RM	Adjustments RM	Proforma after Proforma 2 and Public Issue RM	Adjustments RM	Proforma after Proforma 3 and utilisation of proceeds RM
Net Current Assets/ (Liabilities)	(9,216)		9,070,823		15,572,543		40,510,043		16,153,043
Long-term and Deferred Liabilities									
Hire-puchase payables - non-current portion	-	(4,174,693)	(4,174,693)	-	(4,174,693)	-	(4,174,693)	-	(4,174,693)
Deferred income	-	(124,318)	(124,318)	-	(124,318)	-	(124,318)	-	(124,318)
Bank borrowings - non-current portion	-	(13,766,370)	(13,766,370)	-	(13,766,370)	-	(13,766,370)	-	(13,766,370)
Deferred tax liabilities	-	(2,603,502)	(2,603,502)	-	(2,603,502)	-	(2,603,502)	-	(2,603,502)
	-		(20,668,883)		(20,668,883)		(20,668,883)		(20,668,883)
Minority interests	-	(1,077,283)	(1,077,283)	-	(1,077,283)	-	(1,077,283)	-	(1,077,283)
Net Assets/ (Liabilities)	(9,216)		38,469,998		44,971,718		69,909,218		67,209,218

(Forward)

10. FINANCIAL INFORMATION *(Cont'd)*

			Proforma 1		Proforma 2		Proforma 3		Proforma 4
	Audited financial statements as of 31 December 2005 RM	Adjustments RM	Proforma after Acquisition RM	Adjustments RM	Proforma after Proforma 1 and Rights Issue RM	Adjustments RM	Proforma after Proforma 2 and Public Issue RM	Adjustments RM	Proforma after Proforma 3 and utilisation of proceeds RM
Represented by:									
Issued capital	2	29,123,278	29,123,280	6,501,720	35,625,000	11,875,000	47,500,000	-	47,500,000
(Accumulated loss) / Unappropriated profit	(9,218)	9,355,936	9,346,718	-	9,346,718	-	9,346,718	(1,000,000)	8,346,718
Share premium	-	-	-	-	-	13,062,500	13,062,500	(1,700,000)	11,362,500
Shareholders' Equity/(Capital Deficiency)	(9,216)		38,469,998		44,971,718		69,909,218		67,209,218
Net tangible assets/ (liabilities) per ordinary share of:									
RM1.00 each	(4,608)		N/A		N/A		N/A		N/A
RM0.10 each	N/A		0.13		0.13		0.15		0.14

Note: *An exchange rate of RM2.2341 to SGD1.00 as of 31 December 2005 has been used in translating the financial statements of FS Group, which are prepared in Singapore Dollar, into Ringgit Malaysia.*

Stamped for the purpose of identification only with our letter/report dated
16 JUN 2006
Deloitte & Touche
Kuala Lumpur/Petaling Jaya

FRONTKEN CORPORATION BERHAD Co Reg No.651020-T

Suite 1603, 16th Floor, Wisma Lim Foo Yong, 86, Jalan Raja Chulan, 50200 Kuala Lumpur
Telephone : (603) 2732-1377 * Facsimile : (603) 2732-0338 * E-mail :fcb@frontken.com * Website : www.frontken.com

NOTES AND ASSUMPTIONS TO THE PROFORMA CONSOLIDATED BALANCE SHEETS OF FRONTKEN CORPORATION BERHAD ("FCB") AND ITS SUBSIDIARY COMPANIES ("FCB Group")

The proforma consolidated balance sheets have been presented on the following bases:

1. The proforma consolidated balance sheets of the FCB Group have been prepared based on the accounting policies consistent with those adopted in the preparation of the statutory financial statements of FCB and its subsidiary companies. The proforma consolidated balance sheets are prepared for illustrative purposes only to reflect the effects on the financial position of the FCB Group as of 31 December 2005 had the following proposals been completed on the same date:

   (i) Splitting of the existing issued and paid-up share capital of FCB of two (2) ordinary shares of RM1.00 each into twenty (20) ordinary shares of RM0.10 each ("FCB Shares");

   (ii) Acquisition by FCB of 9,093,984 ordinary shares of SGD1.00 each in Frontken (Singapore) Pte. Ltd. ("FS"), representing the entire equity interest in FS, for a purchase consideration of RM29,123,278 to be fully satisfied by the issuance of 291,232,780 new FCB Shares at an issue price of RM0.10 per share ("Acquisition");

   (iii) Renounceable rights issue of 65,017,200 new FCB Shares on the basis of approximately two point twenty three (2.23) rights shares for every ten (10) existing FCB Shares held after the Acquisition at an issue price of RM0.10 per share ("Rights Issue");

   (iv) Public issue of 118,750,000 new FCB Shares at an issue price of RM0.21 per FCB Share payable in full upon application ("Public Issue"); and

   (v) Listing of and quotation for the entire enlarged issued and paid-up share capital of FCB, comprising 475,000,000 FCB Shares on the MESDAQ Market of Bursa Malaysia Securities Berhad.

2. The proforma consolidated balance sheets have been prepared based on:

   (i) Audited financial statements of FCB as of 31 December 2005;

   (ii) Audited financial statements of FS and its subsidiary companies ("FS Group") as of 31 December 2005; and

(iii) Assumptions that the Acquisition, Rights Issue and Public Issue had taken place on 31 December 2005 as follows:

Proforma 1

Proforma 1 incorporates the Acquisition.

Proforma 2

Proforma 2 incorporates Proforma 1 and the Rights Issue.

Proforma 3

Proforma 3 incorporates Proforma 2 and the Public Issue.

Proforma 4

Proforma 4 incorporates Proforma 3 and the utilisation of proceeds from the Rights Issue and Public Issue amounting to RM31,439,220.

The estimated share issue and listing expenses of RM1,700,000 relating to the Rights Issue and Public Issue have been set off against the share premium account.

3. The gross proceeds from the Rights Issue and Public Issue amounting to RM31,439,220 will be utilised as follows:

	RM
Construction of factory	6,600,000
Purchase of plant and machinery	9,757,000
Research and development:	
Purchase of research and development equipment	5,300,000
Purchase of consumables and other related research and development expenses	1,000,000
Repayments of borrowings	3,000,000
Working capital	4,082,220
Estimated share issue and listing expenses	1,700,000
	31,439,220

4. The movements in issued and paid-up share capital, unappropriated profit/accumulated loss and share premium account of the FCB Group are as follows:

	Share Capital RM	Unappropriated Profit / (Accumulated Loss) RM	Share Premium RM
Per audited financial statements as of 31 December 2005	2	(9,218)	-
Acquisition	29,123,278	9,355,936	-
Proforma 1	29,123,280	9,346,718	-
Rights Issue	6,501,720	-	-
Proforma 2	35,625,000	9,346,718	-
Public Issue	11,875,000	-	13,062,500
Proforma 3	47,500,000	9,346,718	13,062,500
Utilisation of proceeds	-	(1,000,000)	(1,700,000)
Proforma 4	47,500,000	8,346,718	11,362,500

5. Negative goodwill represents the excess of the identifiable net assets of the subsidiary companies acquired as of 31 December 2005 over the cost of investment in the subsidiary companies. The negative goodwill is calculated as follows:

	RM
Acquisition of FS Group	
Cost of investment	29,123,278
Net assets acquired	(38,479,214)
Negative goodwill	(9,355,936)

The negative goodwill has been taken up in the unappropriated profit.

On behalf of the Board of Directors,

WONG HUA CHOON
Director

SEE CHUAN SWEE
Director

16 JUN 2006

10.9 REPORTING ACCOUNTANTS' LETTER ON THE PROFORMA CONSOLIDATED BALANCE SHEETS

(Prepared for inclusion in this Prospectus)

Deloitte.

Deloitte & Touche (AF 0834)
Chartered Accountants
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1 Jalan SS 21/58
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16 June 2006

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

Dear Sirs,

FRONTKEN CORPORATION BERHAD ("FCB")
PROFORMA CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2005

We have reviewed the presentation of proforma consolidated balance sheets of FCB and its subsidiary companies ("FCB Group") as of 31 December 2005, together with the notes and assumptions thereto prepared for illustrative purposes, for which the Directors of FCB are solely responsible, as set out in the Prospectus to be dated 22 June 2006 in connection with the listing of and quotation for the entire issued and paid-up share capital of FCB, comprising 475,000,000 ordinary shares of RM0.10 each ("FCB Shares") on the MESDAQ Market of Bursa Malaysia Securities Berhad which include the public issue of 118,750,000 new FCB Shares at an issue price of RM0.21 per FCB Share payable in full upon application.

In our opinion:

(i) the proforma consolidated balance sheets have been properly compiled on the bases of preparation stated;

(ii) such bases are consistent with the accounting policies adopted by FCB and the subsidiary companies; and

(iii) the adjustments as explained in the notes to the proforma consolidated balance sheets are appropriate for the purposes of the proforma consolidated balance sheets.

We understand that this report will be used for inclusion in the Prospectus in connection with the abovementioned corporate exercise. As such, this report should not be used or referred to, in whole or in part, for any other purposes without our prior written consent.

Yours very truly,

Deloitte & Touche

Enclosure

Audit.Tax.Consulting.Financial Advisory.

Member of
Deloitte Touche Tohmatsu

10.10 CONSOLIDATED PROFIT FORECAST AND ASSUMPTIONS

The Directors of FCB forecast that, barring unforeseen circumstances, the consolidated PBT and PAT of the FCB Group for the financial year ending 31 December 2006 will be as follows:

	RM'000
Revenue	77,979
Less: Pre-acquisition revenue of subsidiaries	(17,762)
Net revenue^	60,217
PBT before MI and pre-acquisition profit	13,365
Less: Pre-acquisition profit of subsidiaries	(3,350)
PBT before MI	10,015
Less: Income tax expense	(2,314)
PAT before MI	7,701
Less: MI	(197)
PAT after MI^	7,504
Weighted average number of shares in issue*	324,739
Basic EPS# (computed based on PAT after MI) (sen)	
- Based on the weighted average number of shares in issue	2.3
- Based on the enlarged share capital	1.6
Net PE Multiple based on the issue price of 21 sen per Share (times)	
- Based on the weighted average number of shares in issue	9.1
- Based on the enlarged share capital	13.3
Basic EPS# (computed based on PAT after MI but before pre-acquisition profit) (sen)	
- Based on the weighted average number of shares in issue	3.1
- Based on the enlarged share capital	2.1
Net PE Multiple based on the issue price of 21 sen per Share (times)	
- Based on the weighted average number of shares in issue	6.8
- Based on the enlarged share capital	9.9

Notes:

^ *The consolidated forecast net revenue and PAT after MI of FCB for the financial year ending 31 December 2006 incorporate the post-acquisition revenue and results of the new subsidiaries acquired on 31 March 2006 for the period from 1 April 2006 to 31 December 2006.*

* *Calculated based on the assumption that the Public Issue is completed in July 2006.*

\# *Fully-diluted EPS has not been presented as the FCB Group has no dilutive potential ordinary shares.*

10.11 REPORTING ACCOUNTANTS' LETTER ON THE CONSOLIDATED PROFIT FORECAST
(Prepared for inclusion in this Prospectus)

Deloitte.

Deloitte & Touche (AF 0834)
Chartered Accountants
Level 19, Uptown 1
1 Jalan SS 21/58
Damansara Uptown
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16 June 2006

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

Dear Sirs,

FRONTKEN CORPORATION BERHAD ("FCB")
CONSOLIDATED PROFIT FORECAST
FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2006

We have reviewed the consolidated profit forecast of FCB and its subsidiary companies ("FCB Group"), for which the Directors of FCB are solely responsible, for the financial year ending 31 December 2006, as set out in the Prospectus to be dated 22 June 2006 in accordance with the Malaysian Approved Standards on Auditing, AI 810 applicable to the review of forecast. The forecast has been prepared in connection with the listing of and quotation for the entire issued and paid-up share capital of FCB, comprising 475,000,000 ordinary shares of RM0.10 each ("FCB Shares") on the MESDAQ Market of Bursa Malaysia Securities Berhad which include the public issue of 118,750,000 new FCB Shares at an issue price of RM0.21 per FCB Share payable in full upon application.

Our review has been undertaken to enable us to form an opinion as to whether the forecast, in all material respects, is properly prepared on the basis of the assumptions made by the directors and is presented on a basis consistent with the accounting policies adopted by the FCB Group. The Directors of FCB are solely responsible for the preparation and presentation of the forecast and assumptions on which the forecast is based.

Forecast, in this context, means prospective financial information prepared on the basis of assumptions as to future events which management expects to take place and actions which management expects to take as of the date the information is prepared (best-estimate assumptions). While information may be available to support the assumptions on which forecast is based, such information is generally future oriented and therefore uncertain. Thus, actual results are likely to be different from the forecast since anticipated events frequently do not occur as expected and the variation could be material.

Deloitte & Touche

16 June 2006
Frontken Corporation Berhad
Page No. 2

Subject to the matters stated in the preceding paragraphs:

(i) Nothing has come to our attention which causes us to believe that the assumptions made by the Directors, as set out in the accompanying statement, do not provide a reasonable basis for the preparation of the consolidated profit forecast; and

(ii) In our opinion, the consolidated profit forecast, so far as the calculations are concerned, is properly prepared on the basis of the assumptions made by the Directors and is presented on a basis consistent with the accounting policies adopted by the FCB Group.

We understand that this report will be used solely for inclusion in the Prospectus in connection with the abovementioned corporate exercise. As such, this report should not be used or referred to, in whole or in part, for any other purposes without our prior written consent.

Yours very truly,

Deloitte & Touche

Enclosure

FRONTKEN CORPORATION BERHAD Co Reg No.651020-T

Suite 1603, 16th Floor, Wisma Lim Foo Yong, 86, Jalan Raja Chulan, 50200 Kuala Lumpur
Telephone : (603) 2732-1377 * Facsimile : (603) 2732-0338 * E-mail :fcb@frontken.com * Website : www.frontken.com

FRONTKEN CORPORATION BERHAD ("FCB")
CONSOLIDATED PROFIT FORECAST
FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2006

Barring unforeseen circumstances and on the bases and assumptions set out below, the Board of Directors of FCB forecasts that the consolidated profit of FCB and its subsidiary companies ("FCB Group") for the financial year ending 31 December 2006 will be as follows:

	RM
Revenue for the year	77,979,168
Less: Pre-acquisition revenue of subsidiary companies (Note)	(17,762,306)
Net revenue	60,216,862
Profit before tax, minority interests and pre-acquisition profit	13,365,675
Less: Pre-acquisition profit of subsidiary companies (Note)	(3,350,412)
Profit before tax and minority interests	10,015,263
Income tax expense	(2,314,136)
Profit after tax but before minority interests	7,701,127
Minority interests	(196,833)
Profit after tax and minority interests	7,504,294
Weighted average number of ordinary shares of RM0.10 each in issue	324,738,883
Net earnings per share (sen):	
Basic	2.31
Fully diluted*	-
Net price-earnings multiple based on the issue price of RM0.21 per share	9.09

Note: The consolidated forecast net revenue and profit after tax and minority interests of FCB Group for the financial year ending 31 December 2006 incorporate the post-acquisition revenue and results of the new subsidiary companies acquired on 31 March 2006 for the period 1 April 2006 to 31 December 2006.

* Fully diluted earnings per share has not been presented as the FCB Group has no dilutive potential ordinary shares.

Stamped for the purpose of identification only with our letter/report dated

16 JUN 2006

Deloitte & Touche
Kuala Lumpur/Petaling Jaya

Thermal Spray Coating – Wire Metallizing * Powder Spraying * Ceramic Coating * TAFA JP-5000 High Pressure H.V.O.F. Spraying * Plasma Spraying With Robotic System
Plasma Transfer * ARC Cladding (PTA) * Sourcing & Supply Of Solid Ceramic * CNC Precision Machining * PVD/CVD Parts Manufacturing, Refurbishing

Principal Bases and Assumptions

The principal bases and assumptions upon which the consolidated profit forecast has been prepared are as follows:

1. The following transactions are expected to be completed in July 2006:

   (i) Public issue of 118,750,000 new FCB Shares at an issue price of RM0.21 per FCB Share payable in full upon application; and

   (ii) Listing of and quotation for the entire enlarged issued and paid-up share capital of FCB, comprising 475,000,000 FCB Shares on the MESDAQ Market of Bursa Malaysia Securities Berhad.

2. There will be no significant changes in the prevailing economic and political conditions in Malaysia and elsewhere that may directly or indirectly affect the activities or performance of the FCB Group and the business of the FCB Group's major customers and suppliers.

3. There will be no material changes in present legislation and government regulations, including taxation and guidelines of regulatory authorities which will affect the FCB Group's activities or the markets in which the FCB Group operates.

4. Inflation rates will remain at current levels and there will not be any material fluctuation in prevailing exchange rates of foreign currencies against Ringgit Malaysia ("RM").

5. Existing financing facilities will remain available and the level of interest rates will not change materially from those presently prevailing.

6. There will be no major industrial disputes or any abnormal factors or changes, both domestic and overseas, which will adversely affect the FCB Group's operations.

7. There will be no significant changes in the principal activities, management structure and accounting policies presently being adopted by FCB and its subsidiary companies.

8. The FCB Group will continue to attract and retain key personnel to sustain its operations and growth.

9. The capital expenditure programs will be implemented, incurred and paid as planned with no material changes in the expected cost of assets to be acquired. There will not be any major additions to property, plant and equipment other than those planned.

10. There will be no significant impairment in the carrying amount of assets held by the FCB Group.

11. There will be no material deviation in the gross profit margin forecasted.

12. There will be no material claims from its customers for damages and no provision for loss arising from such claims is forecasted.

13. Existing trading relationship with major customers and suppliers will be maintained. There will be no limitation or delay in the supply of raw materials by suppliers. The Group will be able to successfully market, sell and deliver its services to its customers as planned.

14. There will be no major delay in the completion of the construction of the new plant and production level of new production line will be achieved as forecasted.

Signed on behalf of the Board of Directors,

WONG HUA CHOON
Director

SEE CHUAN SWEE
Director

16 JUN 2006

10.12 DIRECTORS' COMMENTARY ON PROFIT FORECAST

The Directors forecast that the Group's revenue (on a proforma basis assuming that the Group has been in existence since 1 January 2005) will increase by 22.1% from RM63.9 million in 2005 to RM78.0 million in 2006. The Directors expect that revenue growth will be driven mainly by the semiconductor sector, with Group's sales in the semiconductor segment accounting for approximately 35% of total revenue in 2006, representing an increase of RM7.1 million or approximately 35% compared to that achieved in the previous financial year. This is followed by the power and energy, oil and gas sector and petrochemical sectors which are forecasted to contribute 21%, 16% and 9% to Group's revenue. The Directors believe that the forecasted revenue growth will be supported by the Group's new production facilities with additional production floor space which is catered for customers in the semiconductor sector.

In the semiconductor industry, the Directors believe that the Group's technology collaboration with technology partners and accreditation by Lam Research will provide it with an added advantage over the other industry players. The Group intends to leverage on the additional capital investment which has been announced by its customers, and anticipates an increasing demand for precision cleaning services arising from the capacity expansion by its customers.

In the industrial sector, which is forecasted to make up approximately 65% of total revenue, the Group forecasts that revenue contribution will mainly be derived from its existing customers. The Group plans to develop more coating applications for their customers in the petrochemical sectors, and undertake continuous R&D on new applications and upgrading of equipment design to produce more superior coatings. Details of these continuous R&D are provided in Section 5.3.11 of this Prospectus. The Group expects that these R&D activities will result in a wider scope and capabilities in repairs, upgrading and refurbishment of critical equipment for its clients in the petrochemical sector.

Meanwhile, the Group intends to continue to promote awareness among prospective customers in Singapore and Malaysia of the benefits and versatility of thermal spray and development of new applications. The Directors believe that this, coupled with the fact that the thermal spray industry is still at its early development stage in this region, will lead to new business opportunities with prospective customers which will contribute to revenue growth of the FCB Group.

The effective tax rates of FS, FM and FAE are forecasted to be slightly higher than their respective statutory tax rates due to certain non-deductible expenses.

The Group forecasts a PBT before MI and pre-acquisition profit of RM13.4 million and PAT after MI and pre-acquisition profit of RM7.5 million for the financial year ending 31 December 2006 having regard to anticipated sales arising from discussion with customers and past revenue trend.

The Directors have reviewed the consolidated profit forecast of FCB for the financial year ending 31 December 2006 based on the assumptions referred to in Section 10.11 of this Prospectus. The Directors are of the opinion, after due and careful enquiry, that the consolidated profit forecast of FCB is fair and reasonable in light of the prospects of the thermal coating services and precision cleaning industry in which it operates, the future plans and strategies adopted by the Group as set out in Section 5.8 of this Prospectus, as well as the level of gearing, liquidity and working capital requirements of the Group. Due to the subjective judgments and inherent uncertainties of the consolidated profit forecast and as events and circumstances frequently do not occur as expected, there can be no assurance that the consolidated profit forecast contained herein will be realised and actual result may be materially different from the forecast.

10.13 SENSITIVITY ANALYSIS

The following sensitivity analysis is prepared based on the forecast assumptions as set out in Section 10.11 of this Prospectus and attempts to show the impact on the forecast consolidated profits assuming all other things remain unchanged except for 5% and 10% upward and downward variations in the selling price and cost of sales. Notwithstanding the impact of the variations in selling price and cost of sales, there may exist other factors which have not been taken into account, which variations may have a significant impact, either positively or negatively, on the financials of the Group. The sensitivity analysis is as follows:

(a) Variation in selling price

	PBT before MI but after pre-acquisition profit RM'000	PAT after pre-acquisition profit RM'000
As forecasted	10,015	7,504
Increase by 5%	14,044	10,664
Increase by 10%	18,074	13,825
Decrease by 5%	5,985	4,343
Decrease by 10%	1,956	1,177

(b) Variation in raw materials and subcontractors' cost

	PBT before MI but after pre-acquisition profit RM'000	PAT after pre-acquisition profit RM'000
As forecasted	10,015	7,504
Increase by 5%	8,709	6,483
Increase by 10%	7,404	5,463
Decrease by 5%	11,320	8,524
Decrease by 10%	12,625	9,545

The Directors have assessed the sensitivity of the profit forecast of the FCB Group taking into consideration the fluctuation in major variables as mentioned above. The Directors are of the view that the sensitivity analysis on the Group's profit forecast is fair and reasonable.

10.14 DIVIDEND FORECAST

The Directors of FCB intend to pursue a dividend policy in line with its profitability which would allow shareholders to participate in the profits of the Group while at the same time leaving sufficient reserves for the future growth of the Group.

However, the Directors are of the opinion that it would be more beneficial for the FCB Group to conserve excess cash flow for the expansion of the Group and accordingly, do not intend to declare any dividend for the financial year ending 31 December 2006.