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Corporate Information

Board of Directors

Dato' Tan Yik Huay
(Executive Director)
Dato' Lee Ah Chien @ Lee Ow Kim
(Independent Non-Executive Director)
Ian Ghee Eik Kai
(Independent Non-Executive Director)
Leong Chun Yin
(Executive Director)
Kwan Swee Keong
(Executive Director)
Wong Keng Shin
(Executive Director)

Company Secretary

Yeoh Chong Keat (MIA 2736)

Registered Office and Business Address

No.5, Jalan Pelabur 23/1
40300 Shah Alam
Telephone: 03-55410612
Facsimile : 03-55410132

Share Registrars

Epsilon Registration Services Sdn Bhd
312, 3rd Floor, Block C, Kelana Square
No.17, Jalan SS 7/26
47301 Petaling Jaya
Telephone: 03-78062116
Facsimile : 03-78061261

Auditors

Tai, Yapp & Co.
Chartered Accountants
No.3-2 Jalan Indrahana 2
Off Jalan Kuchai Lama
58200 Kuala Lumpur
Telephone: 03-79830948
Facsimile : 03-79819912

BOARD COMMITTEES

Audit Committee

Dato' Lee Ah Chien @ Lee Ow Kim (Chairman)
Ian Ghee Eik Kai
Leong Chun Yin

Remuneration Committee

Ian Ghee Eik Kai (Chairman)
Dato' Tan Yik Huay
Dato' Lee Ah Chien @ Lee Ow Kim

Nomination Committee

Dato' Tan Yik Huay (Chairman)
Dato' Lee Ah Chien @ Lee Ow Kim
Ian Ghee Eik Kai

Principal Bankers

Bumiputra-Commerce Bank Bhd
Public Bank Bhd

Stock Exchange Listing

Bursa Malaysia Securities Berhad (Second Board)
Sector : Trading
Stock Number : 8923
Stock Short Name : TENCO

Notice Of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Twenty Second Annual General Meeting of the Company will be held at No. 5, Jalan Pelabur 23/1, 40300 Shah Alam, Selangor Darul Ehsan, Malaysia on Tuesday, 26 September 2006 at 10.30 a.m. to transact the following business:-

AS ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 March 2006 and the Reports of the Directors and Auditors thereon. (Resolution 1)
2. To re-elect Dato' Lee Ah Chien @ Lee Ow Kim who retires by rotation in accordance with Article 88 of the Company's Articles of Association. (Resolution 2)
3. To re-elect the following Directors who retire in accordance with Article 95 of the Company's Articles of Association: - (Resolution 3)
 - a) Kwan Swee Keong (Resolution 4)
 - b) Wong Keng Shin
4. To re-appoint Messrs Tai, Yapp & Co as auditors of the Company and to authorise the Board of Directors to fix their remuneration. (Resolution 5)

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following, with or without modifications, as Ordinary Resolutions of the Company:-

PROPOSED PAYMENT OF DIRECTORS' FEES

5. "THAT the payment of Directors' fees of RM30,000.00 in respect of the financial year ended 31 March 2006 be and is hereby approved." (Resolution 6)

AUTHORITY FOR THE DIRECTORS TO ISSUE SHARES

6. "THAT subject always to the Companies Act, 1965 and the approvals of the relevant Governmental and/or regulatory authorities, the Directors be and are hereby empowered, pursuant to Section 132D of the Companies Act, 1965, to issue shares in the Company from time to time at such price, upon such terms and conditions, for such purposes and to such person or persons whomsoever as the Directors may deem fit provided that the aggregate number of shares issued pursuant to this resolution does not exceed 10% of the issued share capital of the Company at the time of issue AND THAT the Directors be also empowered to obtain the approval from Bursa Malaysia Securities Berhad for the listing of and quotation for the additional shares so issued AND THAT such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company." (Resolution 7)
7. To transact any other business of which due notice shall have been given.

By Order of the Board

YEOH CHONG KEAT (MIA 2736)
Company Secretary

Shah Alam
4 September 2006

Notice Of Annual General Meeting

Notes:-

- i. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote in his stead. A proxy may but need not be a member of the Company. If the proxy is not a member of the Company, then the proxy shall be an advocate or an approved company auditor or a person approved by the Companies Commission of Malaysia. The provision of Section 149(1)(b) of the Companies Act, 1965 shall apply to the Company.
- ii. The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing, or if the appointer is a corporation, either under seal or under the hand of an officer or attorney duly authorised.
- iii. A member shall be entitled to appoint more than one (1) proxy. A member who appoints two (2) proxies shall specify the proportion of his shareholdings to be represented by each proxy.
- iv. The instrument appointing a proxy and the power of attorney (if any) under which it is signed or a notarially certified copy thereof must be deposited at the Registered Office of the Company at No. 5 Jalan Pelabur 23/1, 40300 Shah Alam, Selangor Darul Ehsan, not less than 48 hours before the time set for holding this meeting or any adjournment thereof.

Explanatory Notes on Special Business

- i. Resolution 6
This Ordinary Resolution proposed under Item 5 is in accordance with Article 97 of the Company's Articles of Association. The resolution, if passed, will authorise the payment of Directors' fees to Directors of the Company for their services rendered as Directors during the financial year ended 31 March 2006.
- ii. Resolution 7
This Ordinary Resolution proposed under Item 6, if passed, will empower the Directors of the Company to issue shares from the unissued capital of the Company up to an aggregate amount not exceeding 10% of the issued share capital of the Company at the time of issue, for such purposes as the Directors consider would be in the best interest of the Company. The approval is sought to avoid any delay and cost in convening a general meeting for such issuance of shares. This authority will, unless revoked or varied by the Company in a general meeting, expire at the conclusion of the next Annual General Meeting of the Company.

Statement Accompanying Notice of Annual General Meeting

1. The Twenty Second Annual General Meeting of the Company will be held at No. 5, Jalan Pelabur 23/1, 40300 Shah Alam, Selangor Darul Ehsan, Malaysia on Tuesday, 26 September 2006 at 10.30 a.m.
2. The Directors standing for re-election at the Twenty Second Annual General Meeting of the Company are: -
 - a) Dato' Lee Ah Chien @ Lee Ow Kim (retiring in accordance with Article 88 of the Company's Articles of Association);
 - b) Mr Kwan Swee Keong (retiring in accordance with Article 95 of the Company's Articles of Association); and
 - c) Mdm Wong Keng Shin (retiring in accordance with Article 95 of the Company's Articles of Association).

Further details of the abovenamed Directors are set out in the "Directors' Profiles" section of this Annual Report. The details of their holdings are disclosed on page 19 of this Annual Report.

3. A total of five (5) Board meetings were held during the financial year ended 31 March 2006. Detail of attendance of Directors holding office during the financial year are as follows:-

| Directors | Attendance |
|---|------------|
| Dato' Tan Yik Huay | 5/5 |
| Dato' Lee Ah Chien @ Lee Ow Kim | 5/5 |
| Ian Ghee Eik Kai | 5/5 |
| Leong Chun Yin | 5/5 |
| Thurairatnam @ Samuel (Deceased) | 5/5 |
| Kwan Swee Keong (Appointed w.e.f. 4 May 2006) | - |
| Wong Keng Shin (Appointed w.e.f. 4 May 2006) | - |

Directors' Profiles

DATO' TAN YIK HUAY

(Executive Director)

Dato' TanYik Huay, Malaysian, aged 63, was a Non-Executive Director of the company until early May 2006, when he was re-designated as an Executive Director. Dato' Tan was appointed to the Board of Directors on June 21, 2000. He is the Chairman of the Nomination Committee and a member of the Remuneration Committee. He is a Fellow of the Chartered Association of Certified Accountants, United Kingdom and a Fellow of the Institute of Chartered Secretaries and Administrators, United Kingdom. He is a member of the Malaysian Institute of Accountants and the Malaysian Association of Public Accountants. He joined the textile industry in 1973 as the Finance Manager and later as the Executive Director of Pen Group of Companies, an international integrated textile group. He was the Managing Director of Pen Apparel Sdn Bhd, a member of TAL Group of Hong Kong until end January 2005 and currently a Director of the said company. Currently, Dato' Tan is the President of the Malaysian Textile Manufacturers' Association (MTMA). He is the past President of Malaysian Textile Apparel Centre (MATAC) of which he is a founder member. In May, 2006 he was appointed as Vice Chairman of Asian Chemical Fibers Industry Federation (ACFIF). Dato' Tan is the Chairman of Pembangunan Sumber Manusia Bhd (PSMB) and a Council Member of the Federation of Malaysian Manufacturers (FMM) and Vice Chairman of FMM Northern Branch. He is also currently the Chairman of Audit Committee of Jerasia Berhad.

Dato' Tan is the uncle of Leong Chun Yin (Executive Director of the Company) and Leong Pek Wha (major shareholder of the Company). He has no conflict of interest with the Company and has had no convictions for offences within the past ten years.

DATO' LEE AH CHIEN @ LEE OW KIM

(Independent Non-Executive Director)

Dato' Lee Ow Kim, Malaysian, aged 62, is an Independent Non-Executive Director of the Company. He was appointed to the Board on July 27, 2000 and is the Chairman for the Audit Committee. Dato' Lee is a member of both the Remuneration Committee and Nomination Committee and is also the Senior Independent Director with whom investors may convey. He is a Fellow of the Chartered Association of Certified Accountants, United Kingdom, a Fellow and the Council Member for Area 16 (South East Asia) of Chartered Institute of Management Accountants, United Kingdom, and also a member of the Malaysian Institute of Accountants (MIA). At present, he is the Senior Consultant cum Company Secretary of the Toray Malaysia Group of Companies, an international chemicals and integrated textile group. Prior to joining the Toray Pen-Group, he was the Senior Financial Analyst of Esso Malaysia Bhd. Currently, Dato' Lee is a Council Member of the Federation of Malaysian Manufacturers and the Chairman of its Northern Branch. Dato' Lee is the Past President of the Chartered Institute of Management Accountants, Malaysia Division and has been a Council Member of MIA during the years 2002 to 2004. He is an alternate Director in Rosettanet Malaysia Bhd and serves as member of a number of Penang State Councils.

Dato' Lee does not have any family relationship with and is not related to any Director and/or major shareholder of the Company. He has no conflict of interest with the Company and has had no convictions for offences within the past ten years.

IAN GHEE EIK KAI

(Independent Non-Executive Director)

Ian Ghee Eik Kai, Malaysian, aged 40, is an Independent Non-Executive Director of the Company and was appointed to the Board on November 6, 2001. He is the Chairman of the Remuneration Committee and members of the Audit Committee and Nomination Committee. He graduated from the University of London with a LLB Degree in 1990. He further pursued and completed his Certificate of Legal Practice in 1992. Mr. Ian Ghee chambered in Messrs Paul Chong & Kraal and was called to the Malaysian Bar on September 17, 1993. He subsequently worked in Messrs Ng & Ong as a legal assistant from 1993 to 1999. Currently he is one of the main partners in Messrs Ian Ghee & Associates. He specializes in civil and corporate litigation, company law and debt collection, industrial disputes, probate matter and conveyancing practice. He does not have any other directorship in other public companies.

Mr. Ian Ghee does not have any family relationship with and is not related to any Director and/or major shareholder of the Company. He has no conflict of interest with the Company and has had no convictions for offences within the past ten years.

Directors' Profiles

LEONG CHUN YIN

(Executive Director)

Leong Chun Yin, Malaysian, aged 39, is an Executive Director of the Company. He was appointed to the Board on December 16, 1999. He is a member of the Audit Committee of the Company. He holds a Bachelor of Accounting & Finance (Hons) degree from Manchester Polytechnic of United Kingdom.

Mr. Leong sits on the Board of several private limited companies under Tenco Group, but does not have any other directorship in other public companies. Mr. Leong is the brother of Leong Pek Wha, a major shareholder of the company and the nephew of Dato' Tan Yik Huay. He has no conflict of interest with the company and has had no convictions for offences within the past ten years.

KWAN SWEE KEONG

(Executive Director)

Kwan Swee Keong, Malaysian, aged 44, is an Executive Director of the Company. He was appointed to the Board on May 4, 2006. He is a Chemist by profession and graduated with B.Sc. (Hons) in Chemistry from University Malaya, Kuala Lumpur in 1985. He started his career as a Polymer Chemist in the field of polymer dispersion since graduated from university with a multi-national company and was later promoted to the position of Production Manager in 1988. He was then responsible for overall manufacturing operations of the company.

Mr Kwan later joined Ridgemonde Chemicals & Resins Sdn Bhd as Works Director in 1992 and then as Techno Commercial Director in 2000. He is currently the Business Director of Ridgemonde Chemicals & Resins Sdn Bhd.

Mr Kwan does not have any family relationship with and is not related to any Director and/or major shareholder of the Company. He has no conflict of interest with the Company and has had no convictions for offences within the past ten years.

WONG KENG SHIN

(Executive Director)

Wong Keng Shin, Malaysian, aged 49, is an Executive Director of the Company. She was appointed to the Board on May 4, 2006. She graduated with a Diploma in PSC, LCCI in 1978. Prior to joining Tenco Group of Companies, she was attached with an adhesive company where she gained extensive working experience in operations and management. She has long exposure in the various business sectors.

Ms Wong is currently the Business Director of Wilron Products Sdn Bhd and Tenco Industries Sdn Bhd, both wholly owned subsidiaries of Tenco Berhad. She sits on the Board of several private limited companies under Tenco Group and also several private companies.

Ms Wong does not have any family relationship with and is not related to any Director and/or major shareholder of the Company. She has no conflict of interest with the Company and has had no convictions for offences within the past ten years.

Corporate Governance Statement

The Board of Directors (“the Board”) of Tenco Berhad (“the Company” or “Tenco”) recognises that corporate governance is a continuous process and is therefore committed to direct and manage the Company in ensuring that the Group practices good corporate governance in line with the Malaysian Code on Corporate Governance (the “Code”) in discharging its responsibilities to enhance shareholder value and to protect the interests of shareholders.

In preparing this report, the Board has considered the manner in which the Company has applied the principles of the Code and the extent to which it has complied with the Best Practices of the Code. The Board is of the opinion that aside from any exceptions noted below, the Group has applied the principles set out in Part 1 of the Code and has complied with the best practices set out in Part 2 of the Code throughout the financial year ended 31 March 2006.

A. DIRECTORS

(i) The Board

The Board of Tenco comprises four Executive Directors and two Independent Non-Executive Directors. The profiles of the members of the Board are provided in this Annual Report. The Board is responsible for overseeing the conduct and performance of the Group’s businesses and provides oversight for the Group’s internal controls.

The Board is of the opinion that the interests of shareholders of the Company are fairly represented through the current composition and its size constitutes an effective Board to the Company. The wide spectrum of knowledge, skills and experience of the Board members gives added strength to the leadership which is necessary for the effective stewardship of the Group.

The Company practices a clear demarcation of responsibilities and a balance of power and authority. The roles of the Executive Directors are clearly divided and they are responsible for the day-to-day running of the business, implementation of Board policies and making operational decisions.

(ii) Board Balance

All the Independent Directors are Independent of Management and are free from any relationship that could materially interfere with the exercise of their independent judgement. The two Independent Directors of the Company which forms one third of the Board provides the Board with a good mix of industry-specific knowledge plus broad business and commercial experience. They provide guidance, unbiased, fully balanced and independent views, advice and judgement to many aspects of the Group’s strategy so as to safeguard the interests of minority shareholders and to ensure that the highest standards of conduct and integrity were maintained by the Group.

Dato’ Lee Ah Chien @ Lee Ow Kim has been appointed as the Senior Independent Non-Executive Director to whom all concerns regarding the Company may be conveyed.

(iii) Board Committee

The Board has delegated certain responsibilities to Board Committees which operate within clearly defined terms of reference. The Committees are: -

- a) Audit Committee
- b) Remuneration Committee
- c) Nomination Committee

(iv) Supply of information

The Board meets on a quarterly basis with additional meetings held whenever necessary. The Board meet five (5) times during the year under review.

All Directors are provided with an agenda and at each Board meeting, the Executive Directors, Chief Accountant and/or other relevant Board members will brief on the Group’s activities and operations. The issues would then be deliberated and discussed thoroughly by the Board prior to decision-making. Proceedings of Board meetings are recorded and signed by the Chairman of the meeting.

All Directors whether as a full Board or in their individual capacity have access to all information of the Company on a timely basis in an appropriate form and quality necessary to enable them to discharge their duties and responsibilities.

All Directors have access to the advice and services of the Company Secretaries and may seek independent professional opinion and advice, whenever necessary, at the expense of the Group. The appointment and removal of Company Secretaries are matters for the Board as a whole.

Corporate Governance Statement

In addition, the Board had a verbal understanding of matters reserved to itself for decision, including amongst others, the approval of Group strategy and direction, acquisition and divestment policy, major capital expenditures, significant financial matters and performance of the Group.

(v) Appointments to the Board

In cognizance of the recommendations of the Code, a Nominating Committee had been established by the Board and comprises the following Directors: -

- (a) Dato' Tan Yik Huay - Chairman
- (b) Dato' Lee Ah Chien @ Lee Ow Kim
- (c) Ian Ghee Eik Kai

The Committee is generally responsible to assess the effectiveness of the Board as a whole, the committees of the Board and the contribution of each individual Director. It would assess the size of the Board and review the mix of skills and experience and other qualities required for the Board to function completely and efficiently. Performance of Directors would be assessed on an on-going basis to examine each individual Director's ability to contribute to the effective decision making of the Board. Upon assessing any proposed new nominees for appointment to the Board, the Committee would make recommendations to the existing Board for the final decision-making.

Decisions on appointments of Directors are made by the Board after considering recommendations by the Nomination Committee.

The Committee met during the financial year and after the close of financial year to assess the effectiveness of the Board and the contribution of each individual Director and senior management as well as determined the Directors standing for re-election.

(vi) Directors' Training

The Company does not at present have a formal program for the orientation of newly appointed Directors. The Board considers that the activities of the Group at this time are not so complex as to warrant a formal program. However, all members of the Board have attended and completed the Mandatory Accreditation Programme conducted by the Bursatra Sdn. Bhd. During the financial year ended 31 March 2006, the Directors have attended the in-house conducted courses. Directors are encouraged and will continue to attend further educational programmes and seminars regularly to keep abreast of any new developments in the Bursa Malaysia Securities Berhad ("Bursa Securities") Listing Requirements, other relevant legislation and regulations and to enhance their skills and knowledge.

(vii) Election/Re-election of Directors

In accordance with the Articles of Association of the Company, at least one third of the Directors shall retire from office at each Annual General Meeting (AGM) and each Director shall stand for re-election at least once every three years. Directors appointed by the Board are subject to election by shareholders at the next AGM held through their appointments.

B. DIRECTORS' REMUNERATION

The Remuneration Committee that had been set up by the Board comprises of two Independent Non-Executive Directors and one Executive Director. The members of this Committee are:-

- (a) Ian Ghee Eik Kai – Chairman
- (b) Dato' Lee Ah Chien @ Lee Ow Kim
- (c) Dato' Tan Yik Huay

The remuneration of Directors and senior management are determined at levels which will enable the Group to attract and retain the Directors and senior management needed to run the Group successfully. In the case of Executive Directors as well as senior management, they are to be appropriately rewarded giving due regard to the corporate and individual performance. The level of remuneration of Non-Executive Directors reflects their experience and level of responsibility undertaken by them.

Corporate Governance Statement

The functions of the Committee shall include among others to recommend to the Board the framework of executive remuneration and its cost and the remuneration package for each Executive Director and senior management. The Committee also determines and recommends to the Board on the allowances to the Directors and senior management.

The recommendations of the Non-Executive Directors' remuneration is a matter for the Board as a whole subject to approval of shareholders at the AGM. Directors and senior management are not involved in the deliberation and decisions on their respective remuneration packages.

During the financial year, the Remuneration Committee met at least once to review and recommend to the Board the remuneration packages and benefits including fees of the Directors as well as the senior management.

Details of remuneration of Directors of the Company is set out on page 37 of this Annual Report. The Board of Tenco is of the view that disclosure of the remuneration bands of the Directors is sufficient and the details of the remuneration of each Director are not disclosed for security and confidentiality reasons.

C. SHAREHOLDERS

(i) Dialogue between Companies and Investors

The Board acknowledges the importance for shareholders to be informed of all material business and corporate matters affecting the Group. The Group's performance is reported quarterly to Bursa Securities and the yearly business review is disclosed in the Annual Report. Information is also disseminated in strict adherence to the disclosure requirements of Bursa Securities.

Apart from contacts at general meetings, there is no formal program or schedule of meetings with investors, shareholders, stakeholders and the public generally. However, the Management has the option of calling for meetings with investors/analysts if it deems necessary. Thus far, the Management is of the opinion that this arrangement has been satisfactory to all parties.

Any queries or concerns with regards to the Group may be conveyed to Dato' Lee Ah Chien @ Lee Ow Kim being the Senior Independent Director of the Company, at the following contact numbers:-

Telephone number : 03-5541 0612

Facsimile number : 03-5541 0132

(ii) Annual General Meeting (AGM)

The Company uses the AGM as the primary way of communicating with shareholders. The Annual Report together with the Notice of AGM are sent to shareholders at least 21 days before the date of the meeting. The Board members as well as the Auditors of the Company are present to respond to all questions raised by the shareholders at the meeting. Status of all resolutions proposed at the AGM are submitted to Bursa Securities at the end of the meeting day. Any special business included in the notice of general meeting will be accompanied by an explanatory statement of the effects of a proposed resolution.

D. ACCOUNTABILITY AND AUDIT

(i) Financial reporting

The Directors have the responsibility to present a balanced and fair assessment of the Group's position and prospects in the Annual Reports to shareholders and quarterly reports to Bursa Securities. The Audit Committee assists in reviewing the information for disclosure to ensure accuracy, adequacy and completeness. The Board is also responsible to ensure that the accounting records of the Group are properly kept.

(ii) Internal Control

The Internal Control Statement of the Tenco Group is set out on page 16 of this Annual Report.

(iii) Relationship with the Auditors

The role of the Audit Committee in relation to the External Auditors may be found in the Audit Committee Report on page 11 of this Annual Report. The Company has always and would continue to maintain a close and transparent relationship with its External Auditors in seeking professional advice and ensuring compliance with the appropriate accounting standards.

Additional Compliance Information

1. MATERIAL CONTRACTS

Neither the Company nor any of its subsidiaries had entered into any material contract which involved Directors' and /or major shareholders' interest, either subsisting at the end of the financial year, or which were entered into since the end of the previous financial year.

2. SHARE BUY-BACK

During the financial year ended 31 March 2006, the company did not have a scheme to buy back its own shares.

3. OPTIONS, WARRANTS OR CONVERTIBLE SECURITIES

No options were exercised during the financial year ended 31 March 2006. The Company has not issued any warrants or convertible securities in respect of the financial year under review.

4. AMERICAN DEPOSITORY RECEIPT ("ADR") OR GLOBAL DEPOSITORY RECEIPT ("GDR") PROGRAMME

The Company did not sponsor any ADR or GDR program in the financial year ended 31 March 2006.

5. IMPOSITION OF SANCTIONS AND PENALTIES

During the financial year under review, there were no sanctions and/or penalties imposed on the Company and/or its subsidiary Companies, Directors or Management arising from any significant breach of rules/guidelines/legislation by the relevant regulatory bodies.

6. NON AUDIT FEE

For the financial year ended 31 March 2006, the Group did not pay any non-audit fees to the External Auditors.

7. VARIATION RESULTS

Except for the deviation of RM1,193,749 substantially due to the additional accrual for term loan interest, there is no significant variance in Tenco's audited results for the financial year ended 31 March 2006 from the unaudited results as previously announced.

8. REVALUATION POLICY AND LANDED PROPERTY

The Group had not adopted any revaluation policy in relation to its landed properties.

9. PROFIT GUARANTEE

Refer to Note 27 of the financial statement on page 49 of this Annual Report.

Responsibility Statement By The Board Of Directors

The Directors of the Company are required to ensure that the financial statements of each financial year are properly drawn up in accordance with the provisions of the Companies Act, 1965 and approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Group and the Company as at the end of the financial year and of the results and cash flows of the Group and the Company for the financial year.

The Directors are satisfied that in preparing the financial statements of the Group for the financial year ended 31 March 2006, the Group has used suitable accounting policies and applied them consistently, prudently and reasonably. The Directors also consider that all applicable approved accounting standards have been followed in the preparation of the financial statements.

The Directors have responsibility for ensuring that the Group keeps sufficient accounting records which disclose with reasonable accuracy, the financial position of the Group and the Company and which enable them to ensure that the financial statements comply with the Companies Act, 1965.

Audit Committee Report

For The Financial Year Ended 31st March 2006

MEMBERSHIP

The members of the Audit Committee (the "Committee") for the financial year ended 31 March 2006 are:-

| | |
|---|----------|
| Dato' Lee Ah Chien @ Lee Ow Kim (Independent Non-Executive Director) | Chairman |
| Ian Ghee Eik Kai (Independent Non-Executive Director) | Member |
| Leong Chun Yin (Executive Director) | Member |

TERMS OF REFERENCE

1. Composition

- a. The Committee shall be appointed by the Board of Directors from amongst the Directors of the Company and shall comprise of not less than three (3) members, a majority of whom shall be Independent Directors.
- b. At least one member of the Committee must be a member of the Malaysian Institute of Accountants or similar qualification as specified in Part I or Part II of the 1st Schedule of the Accountants Act, 1967 with at least three (3) years working experience.
- c. No Alternate Director is to be appointed as a member of the Committee.
- d. The members of the Committee shall elect a Chairman from among their numbers who shall be an Independent Director.
- e. If a member of the Committee resigns, dies or for any other reason ceases to be a member with the result that the number of members is reduced below three (3), the Board of Directors shall, within three (3) months of that event, appoint such number of new members as may be required to make up the minimum number of three (3) members.
- f. The term of office and performance of the Committee and each of its members must be reviewed by the Board of Directors at least once every three (3) years to determine whether the Committee and its members have carried out their duties in accordance with their terms of reference.

2. Authority

- a. The Committee is authorised to investigate any matter within its terms of reference and to seek any information it requires from any employees and all employees are directed to co-operate with any request made by the Committee.
- b. The Committee is authorised to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.
- c. The Committee shall have unrestricted access to both the Internal and External Auditors and is able to convene meetings with the External Auditors, excluding the attendance of the executive members of the Committee, whenever deemed necessary.

3. Functions

The functions of the Committee shall be amongst others:-

- I. To review and report the following to the Board of Directors of the Company:-
 - (a) the audit plan, with the External Auditors;
 - (b) the audit report, with the External Auditors;
 - (c) the assistance given by the employees of the Company to the External Auditors;

Audit Committee Report

For The Financial Year Ended 31st March 2006

- (d) the internal audit function:-
- (i) the adequacy of the scope, functions and resources of the internal audit functions and that it has the necessary authority to carry out its work;
 - (ii) the internal audit programme, processes, the results of the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function and;
 - (iii) the evaluation of the system of internal controls, with the External Auditors.
- (e) the quarterly results and year end financial statements, prior to the approval by the Board of Directors, focusing particularly on:-
- (i) changes in or implementation of major accounting policy changes;
 - (ii) significant and unusual events; and
 - (iii) compliance with accounting standards, regulatory and other legal requirements.
- (f) any related party transaction and conflict of interest situation that may arise within the Company or Group including any transaction, procedure or course of conduct that raises questions of management integrity;
- (g) any letter of resignation from the External Auditors of the Company;
- (h) whether there is reason (supported by grounds) to believe that the Company's External Auditors is not suitable for re-appointment;
- (i) matters arising from the audit with the External Auditors including any report or management letter thereon.
- II. To recommend the nomination of a person or persons as External Auditors.
- III. To carry out such other functions as may be agreed to by the Audit Committee and Board of Directors.

4. Meetings

- a. Meetings shall be held not less than four (4) times a year. The External Auditors may request a meeting by notifying the Secretary if they consider it necessary.
- b. A quorum shall be two (2) members, majority of whom must be Independent Directors.
- c. The Chief Accountant, the head of Internal Audit and a representative of the External Auditors shall normally be invited to attend any meeting of the Committee. Other Board members and employees may also attend any particular Audit Committee meeting upon the invitation of the Committee.
- d. The Company Secretary shall be the Secretary of the Committee and will prepare and circulate the minutes of the meetings to the Committee members, the rest of the Board of Directors and External Auditors.

MEETINGS HELD DURING THE FINANCIAL YEAR ENDED 31 MARCH 2006

Five (5) Committee meetings were held in the financial year and details of attendance of the Committee members are as follows:-

| Member | Attendance |
|---------------------------------|------------|
| Dato' Lee Ah Chien @ Lee Ow Kim | 5/5 |
| Leong Chun Yin | 5/5 |
| Ian Ghee Eik Kai | 5/5 |

By invitation, other Board members, Chief Accountant and representatives of the External Auditors were present to brief the Committee on specific issues, with the Company Secretary in attendance.

Audit Committee Report

For The Financial Year Ended 31st March 2006

ACTIVITIES OF THE AUDIT COMMITTEE DURING THE FINANCIAL YEAR

During the financial year, the Committee carried out its duties as set out in its terms of reference. The Committee reviewed the unaudited quarterly financial statements and audited annual financial statements of the Group to ensure compliance with approved accounting standards and adherence to other regulatory requirements prior to submission to the full Board for consideration and approval.

The Committee also assessed the significant issues set out in the management letter arising from the audit of the Group by the External Auditors for the year and seeks clarification and explanations from Management of the Company on issues noted in the audit reports.

The proposed audit fees for the External Auditors in respect of their audit of the Group and the Company had been reviewed by the Committee who had also considered the re-appointment of the External Auditors for recommendation to the shareholders for approval.

In performing its functions, the Committee reviewed the internal control system of the Group and made recommendations to the Board and Management on improvement of internal controls, procedures and systems and other matters noted by the Committee.

INTERNAL AUDIT

The Internal Audit Department reviews and evaluates the adequacy and effectiveness of the internal control systems of the Group. Reports on audit findings together with recommended action plans are presented to the Audit Committee for review and implementation.

Executive Directors' Statement

MALAYSIAN ECONOMIC OVERVIEW

The Malaysian economy grew at 5.3 percent in 2005 despite the high crude oil prices. The growth was driven by stronger electronic exports, following the recovery of the global electronics industry in the fourth quarter of 2005. Steady growth is expected for 2006 and it is forecast that it will achieve a Growth Domestic Products (GDP) growth of 6.0 percent.

FINANCIAL HIGHLIGHTS

The Group registered a turnover of RM66.2 million for the financial year ending March 31, 2006 compared with RM61.4 million in the previous year, an improvement of 7.8 percent despite the competitive market and the constrain caused by the lack of working capital. The Group recorded an operating profit of RM1.5 million compared to RM778 thousands in the previous year. After taking into consideration interest provision, the loss before tax for the Group was RM621 thousand compared with a loss of RM1.37 million in year 2005.

BUSINESS REVIEW AND OUTLOOK

Under the restructured Strategic Business Group (SBG), with greater focus on each business plus the ability to react speedily to market changes, each SBG has recorded improvement in their performance.

1. Cooling Technologies and Electronics

Revenue grew by 5 percent compared to that of previous year due to the increased in ancillary products for air-conditioning and refrigeration segments. The business is divided into 3 products lines, namely commodity chemicals, specialty chemicals and engineering. Commodity chemicals will continue to face stiff competition with strong pressure on margins. Greater emphasis will be on specialty chemicals, engineering and the development of more product lines in these segments to ensure sustainable growth for the Group.

2. Adhesive and Hardware

The Adhesive and Hardware SBG achieved 21 percent higher turnover as compared to that of the previous year despite the slowdown in the building and construction sector. Domestic markets will continue to be highly competitive. Rising crude oil price and recent electricity tariff hike will adversely impact the operation. New products will be introduced and new markets, both local and overseas will be developed.

3. Polymer and Coatings

Sales turnover increased by 23 percent compared to that of last year due mainly to export sales and sales of niche products. Niche products command a healthier margin while local market will remain highly competitive. Greater focus and efforts are being channelled towards the development of more overseas markets.

CORPORATE DEVELOPMENT

The Company is currently undertaking a debt and corporate restructuring exercise. The Board believes that the exercise, when completed will place the Company on a stronger financial footing with flexibility and opportunity to operate the business more efficiently and with lesser constraints.

Executive Directors' Statement

FUTURE PROSPECTS

The Malaysian Manufacturing sector contributed significantly to the development of the economy, accounting for 31.4 percent of the GDP with growth rate of 4.9 percent in year 2005. With resilient domestic and sustainable global demand, the Manufacturing sector is expected to register a growth of 7.0 percent in 2006. With the positive outlook and the SBG in place, the company will be in a position to benefit from the positive business environment as forecasted. New product lines will be added and additional new export markets will be opened.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, we wish to convey our sincere appreciation to the Management and staff of the Group for their services, dedication and support. The Board expresses its appreciation to the shareholders, customers, suppliers, bankers and various authorities for their continuous support.

On behalf of the Board of Directors,

DATO' TAN YIK HUAY
(Executive Director)

LEONG CHUN YIN
(Executive Director)

Internal Control Statement

INTRODUCTION

Pursuant to paragraph 15.27(b) of the Bursa Malaysia Securities Berhad (Bursa Securities) Listing Requirements, the Board of Directors of Tenco Berhad is pleased to provide the following statement on the state of Internal Control of the Group and its subsidiaries for the financial year ended 31 March 2006, which has been prepared in accordance with the "Statement on Internal Control - Guidance for Directors of Public Listed Companies" issued by the Institute of Internal Auditors Malaysia and adopted by the Bursa Securities.

BOARD RESPONSIBILITY

The Board acknowledges its overall responsibility for maintaining a sound system of Internal Control, and for reviewing its adequacy and integrity to safeguard shareholders' investment and the Company's assets. The review of the Group's system of Internal Control is a concerted and continuing process. In the pursuit of this objective, the Directors are aware that the systems of Internal Control are designed to manage rather than eliminate the risk of failure to achieve the Group's objectives and can only provide reasonable and not absolute assurance against material mis-statement or loss.

KEY ELEMENTS OF INTERNAL CONTROL

The principal features of the Group's system of Internal Control can be summarized as follows:

(a) Reporting and Review of Financial Performance

Scheduled meetings are held at operational and management levels to identify, discuss and resolve business and operational matters. Monthly and quarterly review of financial results and forecasts are held for all business within the Group. Operational and financial performance are regularly monitored with formulation of action plans to address any areas of concern. Quarterly, interim and full year results of the Group's state of affairs are disclosed to the shareholders after review and approval by the Board.

(b) Staffing Policies

Policies and procedures on hiring and training scheme of staff have been established at Group level with individual business units having the flexibility to adapt these policies for their specific needs. Staffs are guided on where and how they can contribute and their knowledge and skill continuously upgraded to enable them to meet the demand of their working environment.

(c) Authority and Accountability Levels

The Group has a well defined organization structure with clear lines of accountability, approval and control procedures to provide a sound framework within the organization in facilitating proper decision making at the appropriate authority levels of management including matters that require Board approval.

(d) Internal Control

The Group monitors Internal Control compliance through management review and periodic check by audit personnel. Weaknesses and non-compliance are reported to the Audit Committee together with recommendation for improvement.

(e) Head of Department Meeting

The Group conducts regular meetings of Senior Management which comprises the Executive Directors and all Head of Departments. The meeting will discuss and decide on all operational issues that arise and to inform all Head of Departments on implementation of all major policies and strategic directives. The Executive Directors will also take the opportunity to assess the effectiveness of policies implemented and obtain feedback on market and environment in which it operates.

RISK MANAGEMENT FRAMEWORK

The process of identifying, evaluating and managing the key risks within the Group are an integral part of the Internal Controls framework. The Board has reviewed risk management process of certain identified business entities within the Group and acknowledges that effective risk management is an integral part of good business management practice.

The process of risks assessment and management is an ongoing process which is being carried out at each level of operations. This process is monitored by the Board to ensure the adequacy and integrity of the system of Internal Controls.

Management is responsible for the identification, evaluation and mitigation of risks applicable to their areas of business with the assistance of properly designed and implementation of Internal Controls processes. Management reports findings on a regular basis to the Audit Committee, who will assess the report on behalf of the Board. Senior Management reports to the Board on significant changes in the business environment that present new risks to the business entities within the Group.

The Board will continue to pursue its objective of identifying and management of risks associated with the operation of the Group and to take the necessary measures to strengthen its Internal Controls as a way of ensuring the success of the business of the Group.

Group Financial Highlights

GROUP FINANCIAL HIGHLIGHTS FOR THE YEAR ENDED 31 MARCH 2006

| | | | | |
|------------|-----------------|----------------|---------------------|----------------|
| Revenue | Loss Before Tax | Loss After Tax | Shareholders' Funds | Loss Per Share |
| 66,226,638 | (620,906) | (1,185,647) | 1,848,638 | (2.3) |

FIVE YEARS' FINANCIAL PERFORMANCE

Revenue

| Year | RM |
|------|------------|
| 2002 | 59,142,723 |
| 2003 | 59,172,772 |
| 2004 | 59,612,344 |
| 2005 | 61,441,841 |
| 2006 | 66,226,638 |

Loss Before Tax

| Year | RM |
|------|-------------|
| 2002 | (2,606,856) |
| 2003 | (4,224,904) |
| 2004 | (3,737,653) |
| 2005 | (1,368,112) |
| 2006 | (620,906) |

Shareholders' Funds

| Year | RM |
|------|------------|
| 2002 | 13,309,739 |
| 2003 | 8,959,427 |
| 2004 | 4,739,253 |
| 2005 | 3,236,984 |
| 2006 | 1,848,638 |

Loss Per Share (sen)

| Year | SEN |
|------|-------|
| 2002 | (6.1) |
| 2003 | (8.4) |
| 2004 | (7.3) |
| 2005 | (2.9) |
| 2006 | (2.3) |

Directors' Report

For The Year Ended 31st March 2006

DIRECTORS' REPORT FOR THE YEAR ENDED 31ST MARCH 2006

The Directors present their report and the audited financial statements of the Group and of the Company for the year ended 31st March 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding whilst the principal activities of the subsidiary companies are disclosed in note 11 to the financial statements.

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

| FINANCIAL RESULTS | Group RM | Company RM |
|----------------------------------|---------------------|-----------------------|
| Loss for the year after taxation | (1,185,647) | (52,691,392) |
| | ===== | ===== |

The results of the operations of the Group and of the Company for the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature other than those disclosed in the financial statements.

DIVIDENDS

No dividend has been paid or declared by the Company since the end of the previous financial year. The Directors do not recommend any dividend for the financial year ended 31st March 2006.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year other than those disclosed in the financial statements.

ISSUE OF SHARES

During the financial year, no issue of shares was made by the Company.

OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take up unissued shares of the Company during the year.

DIRECTORS

The Directors who served since the date of the last report are:-

| | |
|---------------------------------|---------------------------|
| DATO' TAN YIK HUAY | |
| DATO' LEE AH CHIEN @ LEE OW KIM | |
| IAN GHEE EIK KAI | |
| LEONG CHUN YIN | |
| WONG KENG SHIN | - Appointed on 04.05.2006 |
| KWAN SWEE KEONG | - Appointed on 04.05.2006 |
| THURAIRATNAM @ SAMUEL | - Deceased on 17.04.2006 |

Directors' Report

For The Year Ended 31st March 2006

The following Directors retire in accordance with the Company's Articles of Association and being eligible, offer themselves for re-election.

- | | | |
|-------|------------|---------------------------------|
| (i) | Article 88 | DATO' LEE AH CHIEN @ LEE OW KIM |
| (ii) | Article 95 | KWAN SWEE KEONG |
| (iii) | Article 95 | WONG KENG SHIN |

DIRECTORS' INTEREST

The shareholdings in the Company of those who were Directors at the end of the financial year, as recorded in the Register of Directors' Shareholdings kept by the Company under Section 134, are as follows:-

| Direct Interest | ----- Ordinary Shares of RM1 each ----- | | | As at 31.3.06 |
|--|---|--------|------|------------------|
| | As at 1.4.05 | Bought | Sold | |
| LEONG CHUN YIN | 205,000 | - | - | 205,000 |
| THURAIRATNAM @ SAMUEL (DECEASED) | 11,000 | - | - | 11,000 |
| Indirect Interest held through body Corporate | | | | |
| LEONG CHUN YIN | 16,528,000 | - | - | 16,528,000 |

The other Directors did not hold shares in the Company as at the end of the year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director has received or become entitled to receive any benefit (other than those benefits disclosed in the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a company in which the Director has a substantial financial interest other than any benefits which may be deemed to have arisen from the transactions entered into by the Company as mentioned in note 30 to the financial statements.

During and at the end of the financial year, no arrangements subsisted to which the Company is a party whose object is to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

OTHER STATUTORY INFORMATION

- a) Before the income statement and balance sheet of the Group and of the Company were made out, the Directors took reasonable steps :-
 - i) to ascertain that proper action has been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts;
 - ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business have been written down to an amount which they might be expected so to realise.
- b) At the date of this report, the Directors are not aware of any circumstances which would render :-
 - i) the amount written off for bad debts or the amount of the provision for doubtful debts in the Group and the Company inadequate to any substantial extent;
 - ii) the values attributed to current assets in the financial statements of the Group and of the Company misleading.

Directors' Report

For The Year Ended 31st March 2006

- c) At the date of this report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- d) At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.
- e) As at the date of this report there does not exist :-
 - i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - ii) any contingent liability in respect of the Group or of the Company which has arisen since the end of the financial year.
- f) In the opinion of the Directors :-
 - i) no contingent liability or other liabilities has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet their obligations when they fall due;
 - ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this report is made.

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

Significant events during the financial year are disclosed in note 32 to the financial statements.

AUDITORS

The auditors, Tai, Yapp & Co., have expressed their willingness to continue in office.

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

DATO' TAN YIK HUAY

LEONG CHUN YIN

Shah Alam
Dated: 27th July 2006

Consolidated Income Statement

For The Year Ended 31st March 2006

| | Note | 2006 RM | 2005 RM |
|---------------------------------------|------|---------------------------|---------------------------|
| Revenue | 6 | 66,226,638 | 61,441,841 |
| Cost of goods sold | | <u>(53,686,230)</u> | <u>(50,643,638)</u> |
| Gross Profit | | 12,540,408 | 10,798,203 |
| Other operating income | | 625,362 | 728,982 |
| Direct expenses | | (30,682) | (91,519) |
| Distribution costs | | (708,353) | (692,762) |
| Administrative expenses | | (6,358,338) | (6,320,096) |
| Other operating expenses | | <u>(4,542,150)</u> | <u>(3,645,230)</u> |
| Profit from operations | | 1,526,247 | 777,578 |
| Finance costs | | <u>(2,147,153)</u> | <u>(2,145,690)</u> |
| Loss before taxation | 7 | (620,906) | (1,368,112) |
| Taxation | 8 | (564,741) | (170,704) |
| Loss after taxation | | <u><u>(1,185,647)</u></u> | <u><u>(1,538,816)</u></u> |
| Loss per ordinary share (sen) - Basic | 9 | <u><u>(2.3)</u></u> | <u><u>(2.9)</u></u> |

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

Income Statement

For The Year Ended 31st March 2006

| | Note | 2006 RM | 2005 RM |
|--------------------------------------|------|----------------------------|-----------------------|
| Revenue | 6 | - | - |
| Other operating income | | 75 | 165,041 |
| Administrative expenses | | (94,751) | (79,941) |
| Other operating expenses | | <u>(52,488,947)</u> | <u>168,981</u> |
| (Loss)/Profit from operations | | (52,583,623) | 254,081 |
| Finance costs | | <u>(107,727)</u> | <u>(107,727)</u> |
| (Loss)/Profit before taxation | 7 | (52,691,350) | 146,354 |
| Taxation | 8 | (42) | (5,490) |
| (Loss)/Profit after taxation | | <u><u>(52,691,392)</u></u> | <u><u>140,864</u></u> |

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

Consolidated Balance Sheet

31st March 2006

| | Note | 2006 RM | 2005 RM |
|---|------|---------------------|--------------------|
| NON CURRENT ASSETS | | | |
| Property, plant and equipment | 10 | 9,451,652 | 9,728,581 |
| Investments | 12 | 580,650 | 580,650 |
| Goodwill on consolidation | 13 | 2,057,366 | 2,742,654 |
| CURRENT ASSETS | | | |
| Inventories | 14 | 11,226,880 | 10,777,353 |
| Trade receivables | 15 | 18,866,299 | 16,077,692 |
| Other receivables, deposits and prepayments | 16 | 1,123,407 | 1,400,974 |
| Tax recoverable | | 525,954 | 499,887 |
| Fixed deposit with licensed banks | 18 | 3,944,154 | 3,617,524 |
| Cash and bank balances | | 2,139,489 | 2,736,772 |
| | | <u>37,826,183</u> | <u>35,110,202</u> |
| CURRENT LIABILITIES | | | |
| Trade payables | 19 | 6,268,232 | 6,857,923 |
| Bills payable | 20 | 2,996,339 | 1,595,880 |
| Other payables and accruals | 21 | 13,807,477 | 11,533,666 |
| Hire purchase payables | 22 | 8,594 | 20,805 |
| Restructured term loans | 23 | 24,459,688 | 24,459,688 |
| Taxation | | 394,131 | 212,469 |
| | | <u>47,934,461</u> | <u>44,680,431</u> |
| NET CURRENT LIABILITIES | | <u>(10,108,278)</u> | <u>(9,570,229)</u> |
| | | <u>1,981,390</u> | <u>3,481,656</u> |
| Financed by :- | | | |
| SHARE CAPITAL | 24 | 52,200,000 | 52,200,000 |
| RESERVES | 25 | (50,351,362) | (48,963,016) |
| SHAREHOLDERS' FUNDS | | 1,848,638 | 3,236,984 |
| NON CURRENT LIABILITIES | | | |
| Hire purchase payables | 22 | 28,078 | 36,672 |
| Deferred taxation | 26 | 104,674 | 208,000 |
| | | 132,752 | 244,672 |
| | | <u>1,981,390</u> | <u>3,481,656</u> |

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

Balance Sheet

31st March 2006

| | Note | 2006 RM | 2005 RM |
|---|------|--------------------|-------------------|
| NON CURRENT ASSETS | | | |
| Property, plant and equipment | 10 | 3,967 | 4,977 |
| Investments in subsidiary companies | 11 | 9,834,995 | 29,399,870 |
| CURRENT ASSETS | | | |
| Other receivables, deposits and prepayments | 16 | 8,488 | 195,071 |
| Amount owing by subsidiary companies | 17 | 1,600,174 | 34,250,331 |
| Tax recoverable | | 143,221 | 143,266 |
| Cash and bank balances | | 25,476 | 27,570 |
| | | <u>1,777,359</u> | <u>34,616,238</u> |
| CURRENT LIABILITIES | | | |
| Other payables and accruals | 21 | 957,312 | 671,803 |
| Amount owing by subsidiary companies | 17 | 2,325,755 | 2,324,636 |
| Restructured term loans | 23 | 1,346,590 | 1,346,590 |
| | | <u>4,629,657</u> | <u>4,343,029</u> |
| NET CURRENT (LIABILITIES)/ASSETS | | (2,852,298) | 30,273,209 |
| | | <u>6,986,664</u> | <u>59,678,056</u> |
| Financed by :- | | | |
| SHARE CAPITAL | 24 | 52,200,000 | 52,200,000 |
| RESERVES | 25 | (45,213,336) | 7,478,056 |
| SHAREHOLDERS' FUNDS | | <u>6,986,664</u> | <u>59,678,056</u> |

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

Consolidated Statement Of Changes In Equity

For The Year Ended 31st March 2006

| | Share Capital RM | Translation Adjustment Account RM | Reserve on Consolidation RM | Accumulated Losses RM | Total RM |
|--|------------------------|--|-----------------------------------|-----------------------------|-------------|
| Balance at 1st April 2004 | 52,200,000 | (43,609) | 522,284 | (47,939,422) | 4,739,253 |
| Currency translation differences | - | 36,547 | - | - | 36,547 |
| Net Profit not recognised in the income statement | - | 36,547 | - | - | 36,547 |
| Net loss for the year | - | - | - | (1,538,816) | (1,538,816) |
| Balance at 31st March 2005 | 52,200,000 | (7,062) | 522,284 | (49,478,238) | 3,236,984 |
| Currency translation differences | - | (202,699) | - | - | (202,699) |
| Net loss not recognised in the income statement | - | (202,699) | - | - | (202,699) |
| Net loss for the year | - | - | - | (1,185,647) | (1,185,647) |
| Balance at 31st March 2006 | 52,200,000 | (209,761) | 522,284 | (50,663,885) | 1,848,638 |

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

Statement Of Changes In Equity

For The Year Ended 31st March 2006

| | Share Capital | Unappropriated Profit/ (Accumulated Losses) | Total |
|----------------------------|-------------------|--|------------------|
| | RM | RM | RM |
| Balance at 1st April 2004 | 52,200,000 | 7,337,192 | 59,537,192 |
| Net profit for the year | - | 140,864 | 140,864 |
| Balance at 31st March 2005 | 52,200,000 | 7,478,056 | 59,678,056 |
| Net loss for the year | - | (52,691,392) | (52,691,392) |
| Balance at 31st March 2006 | <u>52,200,000</u> | <u>(45,213,336)</u> | <u>6,986,664</u> |

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

Consolidated Cash Flow Statement

For The Year Ended 31st March 2006

| | 2006 | 2005 |
|--|-------------|-------------|
| | RM | RM |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Loss before taxation | (620,906) | (1,368,112) |
| Adjustments for :- | | |
| Property, plant and equipment written off | 26,664 | 23,935 |
| Inventories - allowance and written off | 89,023 | 389 |
| Amortisation of goodwill on consolidation | 685,288 | 685,664 |
| Depreciation and amortisation of property, plant and equipment | 996,894 | 1,091,182 |
| Gain on disposal of property, plant equipment | (1,930) | (261,924) |
| Foreign exchange translation | 7,795 | (174,977) |
| Gain on foreign exchange | | |
| - unrealised | - | (165,041) |
| - realised | (71,557) | - |
| Interest expense | 2,096,924 | 2,071,984 |
| Interest income | (97,445) | (113,761) |
| Realised loss on foreign exchange | 11,799 | - |
| General allowance for doubtful debts written back | - | (107,214) |
| Specific allowance for doubtful debts | 54,621 | 57,447 |
| Specific allowance for doubtful debts written back | - | (11,816) |
| Dividend income | (216,460) | - |
| Bad debts written off | - | 581 |
| | 2,960,710 | 1,728,337 |
| Operating profit before working capital changes | | |
| Increase in inventories | (538,550) | (1,976,212) |
| Increase in receivables | (2,505,903) | (205,524) |
| Increase / (Decrease) in payables | 1,305,848 | (1,029,897) |
| | 1,222,105 | (1,483,296) |
| Cash generated from / (absorbed in) operations | | |
| Interest paid | (318,194) | (115,211) |
| Interest received | 97,445 | 113,761 |
| Tax paid | (512,472) | (176,056) |
| | 488,884 | (1,660,802) |
| Net cash provided by / (used in) operating activities | | |

Consolidated Cash Flow Statement

For The Year Ended 31st March 2006

| | 2006 | 2005 |
|---|------------------|------------------|
| | RM | RM |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Placement of fixed deposits | (326,630) | - |
| Withdrawal of fixed deposits | - | 790,109 |
| Proceeds from disposal of property, plant and equipment | 3,926 | 682,858 |
| Purchase of property, plant and equipment | (959,118) | (508,592) |
| Dividend received | 216,460 | - |
| Net cash (used in) /provided by investing activities | (1,065,362) | 964,375 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayment of hire purchase payables | (20,805) | (44,985) |
| Net cash used in financing activities | (20,805) | (44,985) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (597,283) | (741,412) |
| CASH AND CASH EQUIVALENTS BROUGHT FORWARD | 2,736,772 | 3,478,184 |
| CASH AND CASH EQUIVALENTS CARRIED FORWARD | <u>2,139,489</u> | <u>2,736,772</u> |
| Note : - | | |
| Cash and cash equivalents : - | | |
| Cash and bank balances | <u>2,139,489</u> | <u>2,736,772</u> |

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

Cash Flow Statement

For The Year Ended 31st March 2006

| | 2006 | 2005 |
|--|----------------------|----------------------|
| | RM | RM |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| (Loss)/Profit before taxation | (52,691,350) | 146,354 |
| Adjustments for : - | | |
| Allowance for advances to subsidiary companies | 9,266,368 | - |
| Advances to a subsidiary company written off | 23,258,170 | - |
| Impairment loss on investment in subsidiary companies | 19,564,875 | - |
| Unrealised gain on foreign exchange | - | (165,041) |
| Depreciation of property, plant and equipment | 1,010 | 1,010 |
| Interest expenses | <u>107,727</u> | <u>107,727</u> |
| Operating (loss)/profit before working capital changes | (493,200) | 90,050 |
| Decrease / (increase) in receivables | 312,202 | (93,805) |
| Increase in payables | <u>188,706</u> | <u>2,020</u> |
| Cash generated from / (absorbed in) operations | 7,708 | (1,735) |
| Interest paid | <u>(9,802)</u> | <u>(5,535)</u> |
| Net cash used in operating activities | (2,094) | (7,270) |
| CASH FLOWS FROM INVESTING ACTIVITIES | - | - |
| CASH FLOWS FROM FINANCING ACTIVITIES | - | - |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | <u>(2,094)</u> | <u>(7,270)</u> |
| CASH AND CASH EQUIVALENTS BROUGHT FORWARD | 27,570 | 34,840 |
| CASH AND CASH EQUIVALENTS CARRIED FORWARD | <u><u>25,476</u></u> | <u><u>27,570</u></u> |
| NOTE : | | |
| Cash and cash equivalents : - | | |
| Cash and bank balances | <u><u>25,476</u></u> | <u><u>27,570</u></u> |

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

Notes To The Financial Statement

31st March 2006

1. GENERAL INFORMATION

The Company is a public limited liability company incorporated and domiciled in Malaysia. It is listed on the Second Board of Bursa Malaysia Securities Berhad.

The Company's registered office and principal place of business are at No. 5, Jalan Pelabur 23/1, 40300 Shah Alam, Selangor Darul Ehsan.

The financial statements are presented in Ringgit Malaysia.

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities expose it to a variety of financial risks, including foreign currency risk, interest rate risk, credit risk and liquidity risk. The Group's overall financial risk management objective is to ensure that the Group creates value for its shareholders. The Group focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. Financial risk management is carried out through risk reviews, internal control systems, insurance programme and adherence to Group financial risk management policies. The Board regularly reviews these risks and approves the treasury policies, which covers the management of these risks.

Derivative financial instruments are used to reduce exposure to fluctuations in foreign exchange rates and interest rates. While these are subject to the risk of market rates changing subsequent to acquisition, such changes are generally offset by opposite effects on the items being hedged.

The Company does not hold or issue derivative financial instruments for trading purposes.

2.1 Foreign Currency Risk

Foreign currency risk arises as the Group engages in transactions that are denominated in foreign currencies, mainly United States Dollar, Singapore Dollar and Canada Dollar. In addition, the Group is exposed to foreign currency movements on its investments in foreign subsidiary companies. Foreign currency risk is mitigated as most exchange differences arise from translation of monetary items that in substance form part of the Group's net investments in foreign entities. These exchange differences are taken to translation reserve instead of to the income statement.

2.2 Liquidity Risk

Other than the amount owing under the restructured term loans, the liquidity risk of the Group is minimal as it maintains adequate working capital to meet its obligations as and when they fall due.

2.3 Interest Rate Risk

The Group's exposure to interest rate fluctuations are in respect of :

- a) fixed deposits with licensed banks that attracts interest income.
- b) hire purchase obligations of which the interest rate is fixed.
- c) bill payables and restructured term loans of which the interest rates vary with reference to the base lending rates of the bank.

However, the fluctuation in interest rates, if any, is not expected to have a material impact on the financial performance of the Group.

2.4 Credit Risk

This involves the risk that counter parties may be unable to meet the terms of their agreements. The Group has no major concentration of credit risk and the Group manages these risks by monitoring credit evaluations and limiting the aggregate exposure to any counter party.

The Group places its cash and fixed deposits with credit worthy financial institutions.

The carrying amount of financial assets recorded in the financial statements, net of any allowance for losses, represent the Group's exposure to credit risk.

Notes To The Financial Statement

31st March 2006

3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Group and of the Company have been approved by the Board of Directors for issuance on 27th July 2006.

The financial statements of the Group and of the Company have been prepared in accordance with applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965. This requires the Directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

4. SIGNIFICANT ACCOUNTING POLICIES

4.1 Basis of Accounting

The financial statements of the Group and of the Company have been prepared under the historical cost convention unless otherwise indicated in the respective accounting policies as set out below.

4.2 Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary companies made up to the end of the financial year.

Under the acquisition method of accounting the results of subsidiary companies acquired or disposed off are included in the consolidated financial statements from the date of acquisition or up to the date of disposal. Inter-company transactions are eliminated on consolidation and the consolidated financial statements reflect external transactions only.

The difference between the acquisition price and the fair values of the subsidiary companies' net assets acquired is reflected as goodwill or reserve on consolidation. Goodwill on consolidation is stated at cost less accumulated amortisation and impairment losses, if any. It is amortised over a period of ten years from the effective date of acquisition.

4.3 Investment in Subsidiary Companies

A subsidiary company is a company in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from its activities.

Investment in subsidiary companies which are eliminated on consolidation are stated at cost less impairment losses, if any.

4.4 Investments

Investments in unquoted shares and transferable Club Memberships which are held as long term investments are stated at cost less impairment losses, if any.

4.5 Property, Plant and Equipment

Freehold land is stated at cost less impairment losses, if any and is not depreciated. All other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

Depreciation is calculated to write off the cost of other property, plant and equipment on a straight-line basis over the estimated useful lives of the assets concerned. The principal annual depreciation rates used for this purpose are as follows :-

| | |
|--|---------------------------------|
| | % |
| Buildings | 2 |
| Short term leasehold land | over the remaining lease period |
| Furniture, fixtures, fittings and office equipment | 10 – 20 |
| Plant and equipment | 10 – 20 |
| Vehicles | 20 |
| Store equipment | 10 |

Fully depreciated property, plant and equipment are retained in the financial statements until they are no longer in use.

Notes To The Financial Statement

31st March 2006

4.6 Income Taxes

Income tax on the profit or loss for the year comprises current and deferred tax and any adjustments to tax payable in respect of previous years.

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

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

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability settled, based on tax rates that have been enacted or substantially enacted at the balance sheet date. It is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity.

4.7 Impairment of Assets

The carrying amount of the Group's and Company's assets other than inventories, assets arising from construction contracts, deferred tax asset and financial assets (other than investment in subsidiaries, associates and joint ventures) are reviewed for impairment where there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts and the impairment loss is recognised whenever the recoverable amount is less than the carrying amount of the asset.

The impairment loss is charged to the income statement immediately except for the impairment on a revalued asset where the impairment loss is recognised directly against the revaluation surplus account to the extent of the surplus credited from the previous revaluation for the same assets with the excess of the impairment loss charged to the income statement. Subsequent increase in the recoverable amount of an asset is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the assets that would have been determined had no impairment loss been recognised. The reversal is recognised in the income statement immediately except for the reversal of an impairment loss on a revalued asset where the reversal of the impairment loss is treated as a revaluation increase and credited to the revaluation surplus account of the same asset.

The impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and subsequent external events have occurred that reverse the effect of the specific event. In respect of other assets, an impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount.

4.8 Foreign Currencies Conversion

4.8.1 Transactions in Foreign Currencies

Transactions in foreign currencies are converted into Ringgit Malaysia at the exchange rates ruling at the time of transactions or at contracted rates where applicable. Foreign currency assets and liabilities are converted at the exchange rates ruling at the balance sheet date. All exchange differences are dealt with in the income statement.

4.8.2 Translation of Foreign Currency Financial Statements

Assets and liabilities of foreign subsidiary companies are translated into Ringgit Malaysia at the rates of exchange ruling at the balance sheet date and the results of foreign subsidiary companies are translated at the average rate of exchange for the year. Exchange differences arising from the retranslation of the opening net investments in foreign subsidiary companies and from the translation of the results of those subsidiary companies at the average rate are dealt with through the Translation Adjustment Account.

Notes To The Financial Statement

31st March 2006

The exchange rates ruling at balance sheet date used for each unit of foreign currencies to Ringgit Malaysia are as follows :-

| | Average Rate | | Year End | |
|------------------------|--------------|------|----------|------|
| | 2006 | 2005 | 2006 | 2005 |
| 100 Japanese Yen | 3.12 | 3.52 | 3.14 | 3.58 |
| 1 United States Dollar | 3.75 | 3.80 | 3.68 | 3.83 |
| 1 Singapore Dollar | 2.25 | 2.29 | 2.27 | 2.30 |
| 1 Canadian Dollar | 3.16 | 3.01 | 3.18 | 3.11 |
| 1 Sterling Pound | 6.57 | 6.99 | 6.43 | 7.11 |
| 1 Euro Dollar | 4.51 | 4.75 | 4.48 | 4.97 |

4.9 Inventories

Inventories are stated at the lower of cost and net realisable value after due allowances are made for damaged, obsolete and slow moving items. Cost is principally determined on weighted average basis.

The cost of raw materials includes the original purchase price and the incidental expense incurred in bringing the inventories to their present location and condition. The cost of work in progress and finished goods include the cost of raw materials, direct labour and an appropriate proportion of manufacturing overheads.

4.10 Receivables

Receivables are carried at anticipated realisable value. Known bad debts are written off and due allowances are made for any debts considered to be doubtful of collection.

4.11 Research and Development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is expensed off in the income statement in the year it is incurred.

However, if future economic benefit from development activities are probable and measurable, the related development cost is capitalised and amortised on a straight line basis over a period not exceeding 5 years.

4.12 Property, Plant and Equipment Under Hire Purchase Arrangements

Property, plant and equipment acquired under hire purchase arrangements are capitalised in the financial statements and are depreciated in accordance with the policy set out on 4.5 above. The corresponding outstanding obligations due under the hire purchase after deducting financial expenses are included as liabilities in the financial statements. Finance expenses are charged to the income statement based on constant periodic rate of interest on the remaining hire-purchase liabilities.

4.13 Revenue Recognition

Revenue of the Group and of the Company are recognised on the following basis :

- 4.13.1 Revenue from sale of goods are recognised upon the delivery of goods and customer's acceptance.
- 4.13.2 Revenue from services are recognised upon the services rendered.
- 4.13.3 Dividend income is recognised when the right to receive payment has been established.
- 4.13.4 Product commission, interest income, rental income and management fees are recognised on accrual basis.

4.14 Cash and Cash Equivalents

Cash and cash equivalents comprise cash and bank balances and highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value.

Notes To The Financial Statement

31st March 2006

4.15 Segment Information

Segment Information is presented in respect of the Group's business and geographical segments. The primary segment information is in respect of business segments as the Group risk and rates of return are affected predominantly by differences in the products it produces, while the secondary information is reported geographically.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise finance cost and corporate administration expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

4.16 Provision for Liabilities

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

4.17 Employee Benefit Costs

Short term benefits

Wages, salaries, bonuses, social security contributions, paid annual leave and paid sick leave are recognised as an expense in the year in which the associated services are rendered by employees of the Group.

Short term accumulating compensated absences such as paid annual leaves are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leaves are recognised when the absences occur.

Defined contribution plan

Contributions to the Employees' Provident Fund are charged to the income statement in the year to which they relate.

4.18 Financial Instruments

4.18.1 Financial instruments recognised on the balance sheet

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

The accounting policies for financial instruments are disclosed in the individual policies associated with each item.

4.18.2 Disclosure of fair values

The Group's financial instruments are accounted for under the historical cost convention. Fair value represents the amount at which an asset could be exchanged, or a liability settled, between willing parties in an arm's length transaction.

Methodologies

The methodologies and assumptions used in ascertaining the fair values depend on the terms and risk characteristics of the instruments and are briefly set out below.

Notes To The Financial Statement

31st March 2006

Amounts owing by/(to) subsidiary companies

It is not practical to estimate the fair values of the above amounts due principally to a lack of fixed repayment term entered by the parties involved and without incurring excessive costs.

Other financial assets and liabilities

The fair values of the other financial assets and liabilities maturing within 12 months are stated at approximately the carrying value as at the balance sheet date.

5. PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding whilst the principal activities of the subsidiary companies are disclosed in note 11 to the financial statements.

6. REVENUE

Group

Revenue represents invoiced value of goods sold less returns, contract manufacturing services rendered and investment income.

| | Group | | Company | |
|---------------------------------|------------|------------|------------|------------|
| These represent : | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| Sales of goods | 66,109,104 | 61,247,815 | - | - |
| Contract manufacturing services | 117,534 | 194,026 | - | - |
| | ----- | ----- | ----- | ----- |
| | 66,226,638 | 61,441,841 | - | - |
| | ===== | ===== | ===== | ===== |

Notes To The Financial Statement

31st March 2006

7. (LOSS)/PROFIT BEFORE TAXATION

| This is stated after charging :- | Group | | Company | |
|---|------------|------------|------------|------------|
| | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| Directors' fees | 30,000 | 30,000 | 30,000 | 30,000 |
| Directors' remuneration | 1,335,082 | 1,368,116 | - | - |
| Auditors' remuneration | | | | |
| - current year | 76,264 | 80,169 | 9,000 | 9,000 |
| - underprovision in prior year | 1,000 | 1,700 | - | - |
| Depreciation of property, plant and equipment | 877,737 | 969,336 | 1,010 | 1,010 |
| Amortisation of short term leasehold land | 22,301 | 22,301 | - | - |
| Property, plant and equipment written off | 26,664 | 23,935 | - | - |
| Amortisation of goodwill on consolidation | 685,288 | 685,664 | - | - |
| Interest expense on : | | | | |
| - Restructured term loans | 1,956,775 | 1,956,773 | 107,727 | 107,727 |
| - Hire purchase | 6,438 | 9,966 | - | - |
| - Bills payable | 133,711 | 103,861 | - | - |
| - Overdraft interest | - | 1,384 | - | - |
| Specific allowance for doubtful debts | 54,621 | 57,447 | - | - |
| Allowance for advances to subsidiary companies | - | - | 9,266,368 | - |
| Advances to a subsidiary company written off | - | - | 23,258,170 | - |
| Rental of premises | 226,381 | 341,798 | - | - |
| Loss on foreign exchange – realised | 11,799 | 27,995 | - | - |
| Loss on disposal of property, plant and equipment | - | 11,900 | - | - |
| Bad debts written off | - | 581 | - | - |
| Research and development expenditure | | | | |
| - depreciation of property, plant and equipment | 96,856 | 99,545 | - | - |
| - rental paid to a company in which one of the Directors has substantial interest | 60,000 | 60,000 | - | - |
| - direct attributable costs | 8,728 | 21,217 | - | - |
| Management fee | 5,634 | 5,634 | - | - |
| Inventories - allowance and written off | 89,023 | 389 | - | - |
| Impairment loss on investment in subsidiary companies | - | - | 19,564,875 | - |
| Staff costs (excluding directors) | 6,084,899 | 5,985,288 | 1,600 | 1,090 |
| | ===== | ===== | ===== | ===== |
| And crediting:- | | | | |
| General allowance for doubtful debts written back | - | 107,214 | - | - |
| Specific allowance for doubtful debts written back | - | 11,816 | - | - |
| Gross dividend income | 216,460 | - | - | - |
| Interest income | 97,445 | 113,761 | - | - |
| Gain on disposal of property, plant and equipment | 1,930 | 273,824 | - | - |
| Gain on foreign exchange | | | | |
| - unrealised | - | 165,041 | - | 165,041 |
| - realised | 71,557 | 59,695 | - | - |
| | ===== | ===== | ===== | ===== |
| Number of employees as at end of the financial year (excluding directors) | 124 | 142 | - | - |
| | ===== | ===== | ===== | ===== |

Notes To The Financial Statement

31st March 2006

DIRECTORS' REMUNERATION

| | Group | | Company | |
|-------------------------------|------------|------------|------------|------------|
| | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| Executive | | | | |
| Fees * | 12,000 | 12,000 | 12,000 | 12,000 |
| Salaries and other emoluments | 1,165,256 | 1,231,851 | - | - |
| Pension costs | | | | |
| - defined contribution plans | 169,826 | 136,265 | - | - |
| | ----- | ----- | ----- | ----- |
| | 1,347,082 | 1,380,116 | 12,000 | 12,000 |
| | ===== | ===== | ===== | ===== |
| Non-Executive | | | | |
| Fees * | 18,000 | 18,000 | 18,000 | 18,000 |
| | ===== | ===== | ===== | ===== |

* To be approved at the forthcoming Annual General Meeting.

The Directors' remuneration during the financial year ended 31st March 2006 fall within the following bands :-

| Range of remuneration RM | No. of Executive Directors | No. of Non-Executive Directors |
|-----------------------------|----------------------------------|--------------------------------------|
| Below 50,000 | 1 | 3 |
| Between 50,000 and 200,000 | 6 | - |
| Between 200,001 and 250,000 | 2 | - |
| | ----- | ----- |
| Total | 9 | 3 |
| | ===== | ===== |

8. TAXATION

| | Group | | Company | |
|--|------------|------------|------------|------------|
| | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| Based on the results for the year :- | | | | |
| Current Tax | | | | |
| Malaysian Income Tax | 626,100 | 143,200 | - | - |
| Deferred taxation | | | | |
| Relating to (reversal)/ origination of temporary differences (note 26) | (103,326) | 9,700 | - | - |
| | ----- | ----- | ----- | ----- |
| | 522,774 | 152,900 | - | - |
| Under provision in prior years | | | | |
| Malaysian Income Tax | 41,967 | 17,804 | 42 | 5,490 |
| | ----- | ----- | ----- | ----- |
| Tax expense for the year | 564,741 | 170,704 | 42 | 5,490 |
| | ===== | ===== | ===== | ===== |

Notes To The Financial Statement

31st March 2006

Reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate :-

| | Group | | Company | |
|---|----------------|----------------|--------------|--------------|
| | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| (Loss)/Profit before taxation | (620,906) | (1,368,112) | (52,691,350) | 146,354 |
| Tax at Malaysian statutory tax rate of 28% (2005 : 28%) | (173,854) | (383,071) | (14,753,578) | 40,979 |
| Effect of different tax rates in other countries | (2,527) | - | - | - |
| Income not subject to tax | (6,817,130) | (57,681) | - | (46,211) |
| Non allowable expenses | 7,908,667 | 1,254,672 | 14,753,578 | 5,232 |
| Deferred tax assets not recognised | 382,363 | - | - | - |
| Utilisation of prior years capital allowances and tax losses | (732,285) | (596,136) | - | - |
| Effects of tax incentive | | | | |
| - Reduction in statutory tax rate on chargeable income of up to RM500,000 | (42,418) | (46,760) | - | - |
| - Double deduction | (42) | (18,124) | - | - |
| | 522,774 | 152,900 | - | - |
| Underprovision in prior years | 41,967 | 17,804 | 42 | 5,490 |
| Tax expense for the year | 564,741 | 170,704 | 42 | 5,490 |

Based on the estimated tax credit available, the Company has sufficient tax credit under Section 108 of the Income Tax Act, 1967 to frank the payment of net dividends of approximately RM4,258,000 (2005 : RM4,258,000) out of its future profit without incurring additional tax liability.

The Group and the Company have potential deferred tax assets not taken up in the financial statements under the liability method in respect of the following deductible temporary differences :

| | Group | | Company | |
|-----------------------------|--------------|--------------|------------|------------|
| | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| Unabsorbed tax losses | (41,999,930) | (46,394,000) | - | (133,897) |
| Other temporary differences | (581,679) | (717,000) | (6,131) | 4,978 |
| | (42,581,609) | (47,111,000) | (6,131) | (128,919) |

The above deferred tax assets are available indefinitely for offset against future taxable profit of the subsidiary companies in which those items arose. Deferred tax assets have not been recognised in respect of these items as they may not be used to offset future taxable profit of other subsidiary companies in the Group and they have arisen in subsidiary companies that have a recent history of losses.

Notes To The Financial Statement

31st March 2006

9. LOSS PER ORDINARY SHARE

Basic loss per ordinary share :-

The basic loss per ordinary share for the financial year has been calculated based on the consolidated loss after tax divided by the weighted average number of ordinary shares in issue during the financial year.

| | 2006 RM | 2005 RM |
|---|-------------|-------------|
| Consolidated loss after tax | (1,185,647) | (1,538,816) |
| Weighted average number of ordinary shares in issue | 52,200,000 | 52,200,000 |
| Basic loss per ordinary share (sen) | (2.3) | (2.9) |

10. PROPERTY, PLANT AND EQUIPMENT

| Group | As at 1.4.2005 RM | Translation Adjustments RM | Additions RM | (Disposals) RM | (Written off) RM | As at 31.3.2006 RM |
|--|-------------------------|----------------------------------|-----------------|-------------------|------------------------|--------------------------|
| Cost | | | | | | |
| Freehold land | 919,209 | (139,291) | - | - | - | 779,918 |
| Freehold building | 1,966,363 | (65,917) | - | - | - | 1,900,446 |
| Long term | | | | | | |
| leasehold building | 564,605 | - | - | - | - | 564,605 |
| Short term | | | | | | |
| leasehold land | 686,115 | - | - | - | - | 686,115 |
| Short term | | | | | | |
| leasehold building | 5,469,625 | - | - | - | - | 5,469,625 |
| Furniture, fixtures, fittings and office equipment | 3,625,139 | (33,820) | 615,352 | (5,150) | (110,632) | 4,090,889 |
| Plant and equipment | 9,834,858 | (33,509) | 335,776 | (16,503) | - | 10,120,622 |
| Vehicles | 811,678 | - | - | - | - | 811,678 |
| Store equipment | - | - | 7,990 | - | - | 7,990 |
| | 23,877,592 | (272,537) | 959,118 | (21,653) | (110,632) | 24,431,888 |

| Accumulated Depreciation | As at 1.4.2005 RM | Translation Adjustments RM | Depreciation charge RM | (Disposals) RM | (Written off) RM | As at 31.3.2006 RM |
|--|-------------------------|----------------------------------|------------------------------|-------------------|------------------------|--------------------------|
| Freehold land | 92,336 | - | - | - | - | 92,336 |
| Freehold building | 666,042 | 1,164 | 31,932 | - | - | 699,138 |
| Long term | | | | | | |
| leasehold building | 173,492 | - | 8,889 | - | - | 182,381 |
| Short term | | | | | | |
| leasehold land | 336,459 | - | 22,301 | - | - | 358,760 |
| Short term | | | | | | |
| leasehold building | 1,482,366 | - | 109,392 | - | - | 1,591,758 |
| Furniture, fixtures, fittings and office equipment | 2,077,553 | (24,546) | 408,023 | (3,155) | (83,968) | 2,373,907 |
| Plant and equipment | 8,630,071 | (38,661) | 363,790 | (16,503) | - | 8,938,697 |
| Vehicles | 690,692 | - | 51,957 | - | - | 742,649 |
| Store equipment | - | - | 610 | - | - | 610 |
| | 14,149,011 | (62,043) | 996,894 | (19,658) | (83,968) | 14,980,236 |

Notes To The Financial Statement

31st March 2006

| | Net Book Value | | Depreciation Charge | |
|---|----------------|------------|---------------------|------------|
| | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| Freehold land | 687,582 | 826,873 | - | - |
| Freehold building | 1,201,308 | 1,300,321 | 31,932 | 31,747 |
| Long term leasehold building | 382,224 | 391,113 | 8,889 | 8,889 |
| Short term leasehold land | 327,355 | 349,656 | 22,301 | 22,301 |
| Short term leasehold building | 3,877,867 | 3,987,259 | 109,392 | 109,392 |
| Furniture, fixtures, fittings and office equipment | 1,716,982 | 1,547,586 | 408,023 | 395,523 |
| Plant and equipment | 1,181,925 | 1,204,787 | 363,790 | 460,567 |
| Vehicles | 69,029 | 120,986 | 51,957 | 62,763 |
| Store equipment | 7,380 | - | 610 | - |
| | ===== | ===== | ===== | ===== |
| | 9,451,652 | 9,728,581 | 996,894 | 1,091,182 |

Company

| Cost | As at | Additions | As at |
|------------------|--------|-----------|---------|
| | 1.4.05 | | 31.3.06 |
| | RM | RM | RM |
| Office equipment | 10,099 | - | 10,099 |
| | ===== | ===== | ===== |

| Accumulated Depreciation | As at | Depreciation | As at |
|--------------------------|--------|--------------|---------|
| | 1.4.05 | Charge | 31.3.06 |
| | RM | RM | RM |
| Office equipment | 5,122 | 1,010 | 6,132 |
| | ===== | ===== | ===== |

| | Net Book Value | | Depreciation Charge | |
|------------------|----------------|------------|---------------------|------------|
| | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| Office equipment | 3,967 | 4,977 | 1,010 | 1,010 |
| | ===== | ===== | ===== | ===== |

The title deed of a freehold land and building acquired by a subsidiary company for RM1.2 million has yet to be registered in the name of the subsidiary company as there is a lien holder's caveat and a private caveat subsisting over the property which the vendor is obliged to remove before the transfer can be effected. The subsidiary company has lodged a private caveat over the property.

The issuance of title deeds of the short term and long term leasehold land and buildings of certain subsidiary companies is pending.

The cost and net book value of the landed properties of the Group which have been pledged to the financial institutions under the restructured term loans as mentioned in note 23 are as follows :

Notes To The Financial Statement

31st March 2006

| | Cost | | Net Book Value | |
|-------------------------------|------------------|------------------|------------------|------------------|
| | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| Long term leasehold building | 564,605 | 564,605 | 382,224 | 391,113 |
| Freehold land and building | 864,684 | 864,684 | 715,628 | 730,790 |
| Short term leasehold land | 686,115 | 686,115 | 327,355 | 349,656 |
| Short term leasehold building | 5,469,625 | 5,469,625 | 3,877,867 | 3,987,259 |
| | <u>7,585,029</u> | <u>7,585,029</u> | <u>5,303,074</u> | <u>5,458,818</u> |

Included in the above property, plant and equipment of the Group are vehicles under hire purchase arrangements with cost and net book values totalling RM59,009 (2005 : RM204,923) and RM43,273 (2005 : RM70,026) respectively.

11. INVESTMENTS IN SUBSIDIARY COMPANIES

| | Company | |
|--|------------------|-------------------|
| | 2006 RM | 2005 RM |
| Unquoted shares, at cost | 32,130,012 | 32,130,012 |
| Less : | | |
| Dividends paid out of pre-acquisition reserves | (1,730,141) | (1,730,141) |
| Impairment loss in value | | |
| At 1st April | (1,000,001) | (1,000,001) |
| Impairment loss during the year | (19,564,875) | - |
| At 31st March | (20,564,876) | (1,000,001) |
| | <u>9,834,995</u> | <u>29,399,870</u> |

Notes To The Financial Statement

31st March 2006

The subsidiary companies are :-

| Name Direct Subsidiary | Place of Incorporation | Effective Interest | | Principal activities |
|---------------------------------------|---------------------------|--------------------|-----------|--|
| | | 2006 % | 2005 % | |
| Westech Sdn Bhd | Malaysia | 100 | 100 | Importer of industrial chemicals, quipment, building products and consumer products |
| Tenco Industries Sdn Bhd | Malaysia | 100 | 100 | Sales and marketing of hardware related products |
| Wilron Products Sdn Bhd | Malaysia | 100 | 100 | Manufacturing of industrial adhesives, industrial chemicals, aerosol products and decorative paints |
| Ferndale Direct Sdn Bhd | Malaysia | 100 | 100 | Sales and marketing of air conditioning and refrigeration parts and supplies |
| Tenco Construction Sdn Bhd | Malaysia | 100 | 100 | Inactive |
| *Tenco Westech Industries Pte Ltd | Republic of Singapore | 100 | 100 | Sales and marketing of industrial chemicals, industrial adhesives, equipment, building products and aerosol products |
| Ridgemonde Chemicals & Resins Sdn Bhd | Malaysia | 100 | 100 | Polymerisation of synthetic latex for the paint, adhesive, wood and textile industries |
| Quality Coatings Sdn Bhd | Malaysia | 100 | 100 | Contract manufacturing of decorative paints and industrial chemicals |

Notes To The Financial Statement

31st March 2006

| Name | Place of Incorporation | Effective Interest | | Principal activities |
|---|------------------------|--------------------|-----------|--|
| | | 2006 % | 2005 % | |
| Direct Subsidiary | | | | |
| Iso Kimia (M) Sdn Bhd | Malaysia | 100 | 100 | Sales and marketing of maintenance chemicals and floor care products |
| Westech Chemicals Sdn Bhd | Malaysia | 100 | 100 | Sales and marketing of fluorochemicals |
| Vivaplus Paints Sdn Bhd | Malaysia | 100 | 100 | Sales and marketing of decorative paints |
| Continental Series Sdn Bhd | Malaysia | 100 | 100 | Provision of management services |
| Fire-X Solutions Sdn Bhd | Malaysia | 100 | 100 | Inactive |
| Subsidiary company held through Westech Sdn Bhd | | | | |
| Tenco Management Sdn Bhd | Malaysia | 100 | 100 | Inactive |
| Subsidiary company held through Tenco Westech Industries Pte Ltd | | | | |
| * Tenco Westech Industries Incorporated | Canada | 100 | 100 | Sales and marketing of synthetic resins and industrial adhesive |

* Audited by other firms of chartered accountants.

Notes To The Financial Statement

31st March 2006

12. INVESTMENTS

| | Group | |
|--|------------|------------|
| | 2006 RM | 2005 RM |
| Outside Malaysia | | |
| Unquoted shares, at cost | 439,650 | 439,650 |
| In Malaysia | | |
| Transferable club memberships, at cost | 141,000 | 141,000 |
| | ----- | ----- |
| | 580,650 | 580,650 |
| | ===== | ===== |
| Transferable club memberships, at market value | 150,000 | 150,000 |
| | ===== | ===== |

13. GOODWILL ON CONSOLIDATION

| | Group | |
|---------------------------------|-------------|-------------|
| | 2006 RM | 2005 RM |
| Cost | 7,251,065 | 7,251,065 |
| Accumulated amortisation | | |
| At 1st April | (4,508,411) | (3,822,747) |
| Amortisation for the year | (685,288) | (685,664) |
| At 31st March | (5,193,699) | (4,508,411) |
| | ----- | ----- |
| | 2,057,366 | 2,742,654 |
| | ===== | ===== |

14. INVENTORIES

| | Group | |
|-------------------|------------|------------|
| | 2006 RM | 2005 RM |
| At cost : | | |
| Raw materials | 2,944,828 | 3,103,285 |
| Finished goods | 6,302,581 | 5,740,547 |
| Work in progress | 80,972 | 110,681 |
| Packing materials | 425,823 | 400,320 |
| Trading goods | 1,472,676 | 1,422,520 |
| | ----- | ----- |
| | 11,226,880 | 10,777,353 |
| | ===== | ===== |

Notes To The Financial Statement

31st March 2006

15. TRADE RECEIVABLES

| | Group | |
|--|------------------------------|------------------------------|
| | 2006 RM | 2005 RM |
| Total amount outstanding | 20,112,864 | 17,269,636 |
| Less : | | |
| Specific allowance for doubtful debts | | |
| At 1st April | (1,173,081) | (1,127,450) |
| Allowance during the year | (54,621) | (57,447) |
| Allowance written back | - | 11,816 |
| | (1,227,702) | (1,173,081) |
| General allowance for doubtful debts | | |
| At 1st April | (18,863) | (126,077) |
| Allowance written back | - | 107,214 |
| | (18,863) | (18,863) |
| | ----- 18,866,299 ===== | ----- 16,077,692 ===== |

The credit terms of trade receivables range from 30 to 60 days. Other credit terms are assessed and approved on a case by case basis.

The trade receivables of the Group in the local and foreign denominated currencies are as follows :-

| | 2006 RM | 2005 RM |
|------------------|------------------------------|------------------------------|
| Ringgit Malaysia | 16,822,293 | 14,474,994 |
| US Dollar | 1,617,477 | 1,317,405 |
| Singapore Dollar | 426,529 | 285,293 |
| | ----- 18,866,299 ===== | ----- 16,077,692 ===== |

16. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | Group | | Company | |
|-------------------|-----------------------------|-----------------------------|-------------------------|---------------------------|
| | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| Other receivables | 754,754 | 691,282 | - | 2,000 |
| Deposits | 179,883 | 216,228 | 1,000 | 1,693 |
| Prepayments | 188,770 | 493,464 | 7,488 | 191,378 |
| | ----- 1,123,407 ===== | ----- 1,400,974 ===== | ----- 8,488 ===== | ----- 195,071 ===== |

Included in other receivables is an amount of RM339,604 due from the vendors of shares of a subsidiary company in respect of the additional profit guarantee shortfall as disclosed in note 27.

Notes To The Financial Statement

31st March 2006

17. AMOUNT OWING BY/(TO) SUBSIDIARY COMPANIES

| | 2006 RM | Company 2005 RM |
|--------------------------------------|-----------------------------|------------------------------|
| Amount owing by subsidiary companies | 10,870,881 | 34,254,670 |
| Less : | | |
| Allowance for doubtful debts | | |
| At 1st April | (4,339) | (4,339) |
| Allowance during the year | (9,266,368) | - |
| At 31st March | (9,270,707) | (4,339) |
| | ----- 1,600,174 ===== | ----- 34,250,331 ===== |

The amount owing by/(to) subsidiary companies are unsecured, interest free and have no fixed terms of repayment.

18. FIXED DEPOSITS WITH LICENSED BANKS

Group

Included in the fixed deposits are RM3,806,325 (2005 : RM3,360,337) which have been pledged to financial institutions for banking facilities granted to the Group as mentioned in note 20.

19. TRADE PAYABLES

Group

The credit terms of trade payables range from 30 to 60 days.

The trade payables of the Group in the local and foreign denominated currencies are as follows :-

| | 2006 RM | 2005 RM |
|------------------|-----------------------------|-----------------------------|
| Ringgit Malaysia | 5,997,839 | 5,876,847 |
| US Dollar | 217,482 | 956,102 |
| Singapore Dollar | 52,911 | 68 |
| Canada Dollar | - | 24,906 |
| | ----- 6,268,232 ===== | ----- 6,857,923 ===== |

20. BILLS PAYABLE

Group

This trade line facilities granted by the financial institutions to the subsidiary companies are secured against the Group's fixed deposits as mentioned in note 18.

They bear weighted average interest rate at 8% (2005 : 8%) per annum.

Notes To The Financial Statement

31st March 2006

21. OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|---|------------|------------|------------|------------|
| | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| i) Other payables and accruals | 3,775,258 | 3,282,576 | 406,310 | 221,126 |
| ii) Accrued restructured term loan interest | 10,003,819 | 8,225,090 | 542,602 | 444,677 |
| iii) Companies in which the Directors have substantial interest | 28,400 | 26,000 | 8,400 | 6,000 |
| | ----- | ----- | ----- | ----- |
| | 13,807,477 | 11,533,666 | 957,312 | 671,803 |
| | ===== | ===== | ===== | ===== |

The amount in (iii) above is unsecured, interest free and has no fixed terms of repayment.

22. HIRE PURCHASE PAYABLES

| | Group | |
|---|------------|------------|
| | 2006 RM | 2005 RM |
| Total principal outstanding | 36,672 | 57,477 |
| Less : Repayable after the next twelve months shown under non current liabilities | (28,078) | (36,672) |
| | ----- | ----- |
| Repayable within the next twelve months | 8,594 | 20,805 |
| | ===== | ===== |
| Represented by : | | |
| Minimum hire purchase payments : | | |
| - Within one year | 11,436 | 27,244 |
| - After one year but not more than five years | 31,442 | 42,877 |
| | ----- | ----- |
| | 42,878 | 70,121 |
| Less: Future interest charges | (6,206) | (12,644) |
| | ----- | ----- |
| Present value of hire purchase liabilities | 36,672 | 57,477 |
| | ===== | ===== |

23. RESTRUCTURED TERM LOANS

On 1st June 2005, the Company and certain of its subsidiary companies ("the Group") entered into a Debt Restructuring Agreement ("DRA") with its lenders to restructure its debts under a proposed corporate composite restructuring scheme ("restructuring scheme") to be undertaken by the Company. However, the restructuring scheme was terminated on 22nd November, 2005. As at to date, the Group is still in negotiation with its lenders on the settlement of the Group's debts.

The term loans are secured by legal charges over certain freehold and leasehold land and buildings of the subsidiary companies as mentioned in note 10. They bear an interest rate of 8% (2005 : 8%) per annum.

Notes To The Financial Statement

31st March 2006

24. SHARE CAPITAL

| | Group and Company | |
|-----------------------------|-------------------|-------------|
| Ordinary shares of RM1 each | 2006 RM | 2005 RM |
| Authorised | 100,000,000 | 100,000,000 |
| Issued and fully paid | 52,200,000 | 52,200,000 |

25. RESERVES

| | Group | | Company | |
|---|-------------------------|-------------------------|-------------------------|----------------------|
| Non-Distributable | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| Translation Adjustment Account Reserve on consolidation | (209,761) 522,284 | (7,062) 522,284 | - - | - - |
| Distributable | 312,523 | 515,222 | - | - |
| (Accumulated losses)/ Unappropriated profit | (50,663,885) 522,284 | (49,478,238) 522,284 | (45,213,336) 522,284 | 7,478,056 522,284 |
| | (50,351,362) | (48,963,016) | (45,213,336) | 7,478,056 |

26. DEFERRED TAXATION

| | Group | |
|---|------------|------------|
| | 2006 RM | 2005 RM |
| At 1st April | 208,000 | 198,300 |
| Recognised in income statement (note 8) | (103,326) | 9,700 |
| At 31st March | 104,674 | 208,000 |

This represents components of deferred tax liabilities as at the balance sheet date as follows :-

| | Group | |
|--|------------|------------|
| | 2006 RM | 2005 RM |
| Capital allowances claimed on property, plant and equipment in excess of the depreciation charge | 104,400 | 208,000 |
| Other temporary differences | 274 | - |
| | 104,674 | 208,000 |

Notes To The Financial Statement

31st March 2006

27. PROFIT GUARANTEE

The Company has taken legal action to recover the sum of RM27,302 each from two of the vendors of Ridgemonde Chemicals & Resins Sdn Bhd for the shortfall in profit guarantee.

28. SEGMENTAL REPORTING

Segment information is presented in respect of the Group's business and geographical segments.

Inter segment pricing is determined on arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

By Business Segment

The Group's operations comprise the following main business segments :

| | |
|--------------------|---|
| Manufacturing | Manufacture of polymer, chemicals, adhesive, decorative coatings and related products |
| Trading | Sales of chemicals, adhesives, building materials, equipment and consumer products |
| Investment holding | Investment holding and provision of management services |

| 2006 | Manufacturing | Trading | Investment holding | Elimination | Consolidation |
|----------------------------|-------------------|-------------------|--------------------|---------------------|--------------------|
| Revenue | RM | RM | RM | RM | RM |
| External sales | 29,028,437 | 37,198,201 | - | - | 66,226,638 |
| Inter-segment sales | 10,550,658 | 5,763,597 | 2,580,000 | (18,894,255) | - |
| Total | <u>39,579,095</u> | <u>42,961,798</u> | <u>2,580,000</u> | <u>(18,894,255)</u> | <u>66,226,638</u> |
| Results | | | | | |
| Segment results (external) | 2,327,487 | 459,340 | (575,292) | (685,288) | 1,526,247 |
| Finance cost | | | | | (2,147,153) |
| Loss before taxation | | | | | (620,906) |
| Tax expense | | | | | (564,741) |
| Net loss for the year | | | | | <u>(1,185,647)</u> |

Notes To The Financial Statement

31st March 2006

| 2006 | Manufacturing | Trading | Investment holding | Elimination | Consolidation |
|--|---------------|-------------|--------------------|---------------|---------------|
| Other information | RM | RM | RM | RM | RM |
| Segment assets | 29,340,896 | 82,583,111 | 12,933,400 | (74,941,556) | 49,915,851 |
| Segment liabilities | 20,064,359 | 106,169,947 | 6,161,662 | (84,328,755) | 48,067,213 |
| Capital expenditure | 372,160 | 548,041 | 38,917 | | 959,118 |
| Depreciation | 255,607 | 617,948 | 123,339 | | 996,894 |
| Amortisation of goodwill | | | | | 685,288 |
| Non-cash expenses other than depreciation and amortisation | | | | | 170,308 |
| 2005 | Manufacturing | Trading | Investment holding | Elimination | Consolidation |
| Revenue | RM | RM | RM | RM | RM |
| External sales | 32,483,829 | 28,958,012 | - | - | 61,441,841 |
| Inter-segment sales | 10,403,356 | 4,762,376 | 2,400,000 | (17,565,732) | - |
| Total | 42,887,185 | 33,720,388 | 2,400,000 | (17,565,732) | 61,441,841 |
| Results | | | | | |
| Segment results (external) | 567,874 | 734,905 | 160,463 | (685,664) | 777,578 |
| Finance cost | | | | | (2,145,690) |
| Loss before taxation | | | | | (1,368,112) |
| Tax expense | | | | | (170,704) |
| Net loss for the year | | | | | (1,538,816) |
| Other information | | | | | |
| Segment assets | 77,859,778 | 33,789,690 | 65,404,457 | (128,891,838) | 48,162,087 |
| Segment liabilities | 62,642,107 | 86,555,833 | 5,860,245 | (110,133,082) | 44,925,103 |
| Capital expenditure | 95,193 | 119,901 | 339,698 | | 554,792 |
| Depreciation | 770,090 | 316,272 | 4,820 | | 1,091,182 |
| Amortisation of goodwill | | | | | 685,664 |
| Non-cash expenses other than depreciation and amortisation | | | | | 82,352 |

Notes To The Financial Statement

31st March 2006

By Geographical Segment

The Group operates mainly in Malaysia and has sales offices in Singapore and Canada. In determining the geographical segments of the Group, revenue is based on the geographical location of customers. Total assets and capital expenditures are based on the geographical location of assets.

| | Revenue | | Total Assets | | Capital Expenditure | |
|-----------|------------|------------|--------------|------------|---------------------|------------|
| | 2006 RM | 2005 RM | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| Malaysia | 64,749,834 | 59,966,900 | 48,018,583 | 45,958,785 | 955,748 | 548,843 |
| Singapore | 284,915 | 404,961 | 235,835 | 275,957 | - | - |
| Canada | 1,191,889 | 1,069,980 | 1,661,433 | 1,927,345 | 3,370 | 5,949 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| | 66,226,638 | 61,441,841 | 49,915,851 | 48,162,087 | 959,118 | 554,792 |
| | ===== | ===== | ===== | ===== | ===== | ===== |

29. FINANCIAL INSTRUMENTS

a) Credit Risk

As at 31st March 2006, the Group's credit risk is minimised and monitored via strictly limiting the Group's associations to business partners with high creditworthiness. Trade receivables are monitored on an ongoing basis via Group Management reporting procedures.

The Group has no significant concentration of credit risk and places its cash with credit worthy financial institutions.

b) Fair Values

The carrying amounts of the financial assets and liabilities of the Group and of the Company as at 31st March 2006 approximate their fair values on the balance sheet of the Group and of the Company except as set out below :-

| | Group | | | | Company | | | |
|--------------------------------------|-----------------|------------|------------|------------|-----------------|------------|------------|------------|
| | Carrying Amount | | Fair Value | | Carrying Amount | | Fair Value | |
| | 2006 RM | 2005 RM | 2006 RM | 2005 RM | 2006 RM | 2005 RM | 2006 RM | 2005 RM |
| Financial Assets | | | | | | | | |
| Unquoted shares | 439,650 | 439,650 | * | * | - | - | - | - |
| Amount owing by subsidiary companies | - | - | - | - | 1,600,174 | 34,250,331 | # | # |
| Financial Liabilities | | | | | | | | |
| Amount owing to subsidiary companies | - | - | - | - | 2,325,755 | 2,324,636 | # | # |
| | ----- | ----- | | | ----- | ----- | | |
| | 439,650 | 439,650 | | | 3,925,929 | 36,574,967 | | |
| | ===== | ===== | | | ===== | ===== | | |

* It is not practicable to estimate the fair value of the unquoted shares because of the lack of quoted market prices and the ability to estimate the fair value without incurring excessive costs.

It is not practical to estimate the fair values of the above amounts due principally to a lack of fixed repayment term entered by the parties involved and without incurring excessive costs.

Notes To The Financial Statement

31st March 2006

30. SIGNIFICANT RELATED PARTY DISCLOSURES

a) Identities of related parties

Controlling related party relationships are as follows :-

- (i) Its subsidiary companies as disclosed in note 11 above.
- (ii) Substantial shareholder of the Company : Pristine Way Sdn Bhd
- (iii) Firm in which a Director has an interest : Ian Ghee & Associates

b) Transactions

| | Company | |
|--|-----------------|-----------------|
| | 2006 RM | 2005 RM |
| Firm in which a Director, Ian Ghee Eik Kai has interest | | |
| Ian Ghee & Associates | | |
| Professional fee paid | 23,000 ===== | 31,000 ===== |

The above transactions were carried out on terms and conditions not materially different from those obtainable in transactions with unrelated parties.

c) Balances in respect of non trade transaction

| | Group | |
|--|-----------------|-----------------|
| | 2006 RM | 2005 RM |
| With a company in which Leong Chun Yin is a Director and has substantial interest : | | |
| Pristine Way Sdn Bhd | | |
| Amount owing to | 20,000 ===== | 20,000 ===== |
| With a firm in which Ian Ghee Eik Kai has interest : | | |
| Ian Ghee & Associates | | |
| Amount owing to | 8,400 ===== | 6,000 ===== |

Notes To The Financial Statement

31st March 2006

31. CONTINGENT LIABILITIES

| | 2006 RM | Company | 2005 RM |
|--|------------|---------|------------|
| a) Unsecured : | | | |
| (i) Corporate guarantees given to financial institutions for credit facilities granted to subsidiary companies | | | |
| - Principal | 23,113,098 | | 23,113,098 |
| - Term loan interest | 9,629,461 | | 7,780,413 |
| | ----- | | ----- |
| | 32,742,559 | | 30,893,511 |
| | ===== | | ===== |
| (ii) Corporate guarantees given to financial institutions for hire purchase facilities granted to subsidiary companies | - | | 13,075 |
| | ===== | | ===== |

b) Pending Litigations

- (a) A Vendor has filed a claim at the High Court of Shah Alam on 29th July 1988 against a subsidiary Company for the recovery of RM519,514 plus interest and costs for not completing the purchase of a boat. The subsidiary company denied the claim and filed a counter claim for the refund of a deposit of RM108,900 plus damages.

The Court has allowed the Vendor's application for Summary Judgement on 26th April 2001. The subsidiary company has appealed against the Summary Judgement and the next hearing on the case has been fixed on 27th July 2006.

- (b) A Supplier has filed a claim at the High Court of Shah Alam against a subsidiary company for a principal sum of RM354,183 plus costs and interest of RM377,852 as at 31st August 2003 and further interest at the rate of 1.5% per month calculated from 1st September 2003 until date of full settlement. The principal sum claimed is for goods allegedly sold and delivered.

The Court has allowed the Supplier's application for Summary Judgement on 26th January 2005. The subsidiary company has filed the Notice of Appeal against the Summary Judgement and the next hearing and mention on the case has been fixed on 28th November 2006.

- (c) A Supplier has initiated legal proceedings at the High Court of Kuala Lumpur against a subsidiary company on 9th July, 2002 for the principal sum of RM926,270 plus costs and interest till date of full settlement. The principal sum claimed is for price of goods allegedly sold and delivered. The subsidiary company maintains that the Supplier's claim (if any) is premature and misconceived.

The matter is now fixed for full trial on 11th and 12th July 2007.

No provision has been made for the above pending litigations as the Directors are of the opinion that the Group's chances of success in respect of the appeals, suits and counter claims are good.

32. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

Composite Restructuring Scheme

On 8th March 2004, the Company entered into a Restructuring Agreement with Tanigra Sdn Bhd ("TANIGRA") and the vendors of Damansara Indah Sdn Bhd ("DISB") and Tanigra Construction Sdn Bhd ("TCSB") to undertake a composite restructuring scheme. However, the restructuring scheme was subsequently terminated on 22nd November, 2005.

Statement By Directors

We, DATO TAN YIK HUAY and LEONG CHUN YIN, being two of the Directors of TENCO BERHAD, do hereby state on behalf of the Directors that, in our opinion, the financial statements set out on pages 21 to 53 are drawn up in accordance with applicable approved accounting standards in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company at 31ST MARCH 2006 and of their results, changes in equity and cash flows of the Group and of the Company for the year ended on that date.

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

DATO' TAN YIK HUAY

LEONG CHUN YIN

Shah Alam

Dated: 27th July 2006

STATUTORY DECLARATION

I, POCK EVONNE, the officer primarily responsible for the accounting records and financial management of TENCO BERHAD, do solemnly and sincerely declare that the financial statements set out on pages 21 to 53 are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly
declared by the above named POCK EVONNE at Kuala Lumpur
in the Federal Territory on this 27th day of July 2006

POCK EVONNE

Before me,

CHAN LEONG CHOI
No. W309

Pesuruhjaya Sumpah
Malaysia

Report Of The Auditors

To the members of Tenco Berhad

We have audited the financial statements of Tenco Berhad of the Group and of the Company set out on pages 21 to 53. These financial statements are the responsibility of the Company's Directors. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility towards any other person for the content of this report.

We conducted our audit in accordance with approved standards on auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion :-

- a) the financial statements which have been prepared under the historical cost convention, are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of :
 - (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and of the Company ; and
 - (ii) the financial position of the Group and of the Company at 31st March, 2006, and of their results, changes in equity and cash flows of the Group and of the Company for the year ended on that date;

and

- b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company and its subsidiary companies of which we have acted as auditors have been properly kept in accordance with the provisions of the said Act.

We have considered the financial statements and the auditors' reports of all the subsidiary companies of which we have not acted as auditors and are indicated in Note 11 to the financial statements.

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

The auditors' reports on the financial statements of the subsidiary companies were not subject to any qualification or any adverse comment made under Section 174(3) of the Act.

TAI, YAPP & CO
AF: 0205
Chartered Accountants

YAPP HOCK HOE
No: 723/3/08 (J/PH)
Partner

Kuala Lumpur
Dated: 27th July 2006

Analysis Of Shareholdings

ANALYSIS OF SHAREHOLDINGS AS AT 31 JULY 2006

SHARE CAPITAL

| | |
|----------------------------------|------------------------------------|
| Authorised Share Capital | : RM100,000,000.00 |
| Issued and Fully Paid-up Capital | : RM52,200,000.00 |
| Class of securities | : Ordinary shares of RM1.00 each |
| Voting rights | : One vote per ordinary share held |

ANALYSIS OF SHAREHOLDINGS

| Category | Number of Shareholders | | Number of Shares Held | |
|--|------------------------|---------------|-----------------------|---------------|
| | | % | | % |
| 1 - 99 | 13 | 0.34 | 1,002 | 0.00 |
| 100 - 1,000 | 1,735 | 45.42 | 1,502,690 | 2.88 |
| 1,001 - 10,000 | 1,676 | 43.87 | 6,589,000 | 12.62 |
| 10,001 - 100,000 | 335 | 8.77 | 10,292,068 | 19.72 |
| 100,001 to less than 5% of issued shares | 59 | 1.55 | 18,307,240 | 35.07 |
| 5% and above of issued shares | 2 | 0.05 | 15,508,000 | 29.71 |
| Total | 3,820 | 100.00 | 52,200,000 | 100.00 |

SUBSTANTIAL SHAREHOLDERS

(per Register of Substantial Shareholders)

| Name | No. of ordinary shares of RM1.00 each held | | | |
|-------------------------|--|-------|-------------------------|-------|
| | Direct | % | Indirect | % |
| Leong Chun Yin | 205,000 | 0.39 | 16,528,000 ¹ | 31.67 |
| Trendy Approach Sdn Bhd | 10,000,000 | 19.16 | - | - |
| Pristine Way Sdn Bhd | 6,528,000 | 12.51 | - | - |
| Leong Pek Wha | - | - | 6,528,000 ² | 12.51 |

Notes:-

¹ By virtue of his deemed interest through Trendy Approach Sdn Bhd and Pristine Way Sdn Bhd, in accordance with Section 6A of the Companies Act, 1965.

² By virtue of her deemed interest through Pristine Way Sdn Bhd, in accordance with Section 6A of the Companies Act, 1965.

DIRECTORS' SHAREHOLDINGS

(per Register of Directors' Shareholdings)

| Name | No. of ordinary shares of RM1.00 each held | | | |
|---------------------------------|--|------|-------------------------|-------|
| | Direct | % | Indirect | % |
| Leong Chun Yin | 205,000 | 0.39 | 16,528,000 ¹ | 31.67 |
| Dato' Tan Yik Huay | - | - | - | - |
| Dato' Lee Ah Chien @ Lee Ow Kim | - | - | - | - |
| Ian Ghee Eik Kai | - | - | - | - |
| Wong Keng Shin | 217,000 | 0.42 | - | - |
| Kwan Swee Keong | 406,200 | 0.78 | - | - |

Notes:-

¹ By virtue of his deemed interest through Trendy Approach Sdn Bhd and Pristine Way Sdn Bhd, in accordance with Section 6A of the Companies Act, 1965.

Analysis Of Shareholdings

30 LARGEST SHAREHOLDERS

(per Record of Depositors)

| Name | No. of Shares Held | % |
|---|--------------------|-------|
| 1. Trendy Approach Sdn Bhd | 10,000,000 | 19.16 |
| 2. Amsec Nominees (Tempatan) Sdn Bhd <i>Qualifier: Lee Perara & Tan for Pristine Way Sdn Bhd</i> | 5,508,000 | 10.55 |
| 3. Said Bin Ahmad | 2,486,000 | 4.76 |
| 4. Pristine Way Sdn Bhd | 1,020,000 | 1.95 |
| 5. Sharifah Asiah Binti Syed Aziz Baftim | 725,000 | 1.39 |
| 6. Leung Yoke Lin @ Leong Chong Lin | 651,000 | 1.25 |
| 7. Fan Wai Fong | 640,000 | 1.23 |
| 8. Shirley De Costa | 500,000 | 0.96 |
| 9. Gerald Glesphy A/L G.M Perara | 493,000 | 0.94 |
| 10. Devayani Janette Velerie A/P R Suppiah | 477,360 | 0.91 |
| 11. Ramli Bin Zainuddin | 470,000 | 0.90 |
| 12. Amsec Nominees (Tempatan) Sdn Bhd <i>Qualifier: Wilken Industries Sdn Bhd (GZ0112)</i> | 431,000 | 0.83 |
| 13. Tan Seng Kee | 424,000 | 0.81 |
| 14. HLG Nominee (Tempatan) Sdn Bhd <i>Qualifier: Pledged Securities account for Lian Lip Kee</i> | 400,800 | 0.77 |
| 15. Tang Soon Chye | 400,000 | 0.77 |
| 16. Ngam Voon Yeow | 371,800 | 0.71 |
| 17. ESGI Sdn Bhd | 352,000 | 0.67 |
| 18. Ng Kooi Ten @ Ooi Hooi Tin | 350,000 | 0.67 |
| 19. Gan Hock Leong | 300,000 | 0.57 |
| 20. Chan Yok Luin | 300,000 | 0.57 |
| 21. Yap Gaik Choo | 294,000 | 0.56 |
| 22. Chew Leong Chai | 291,000 | 0.56 |
| 23. Ng Lay Peng | 264,800 | 0.51 |
| 24. Lim Soo Gaik | 253,000 | 0.48 |
| 25. Lai Ming Chun @ Lai Poh Lin | 240,000 | 0.46 |
| 26. Wong Keng Shin | 217,000 | 0.42 |
| 27. Mega Bayumas Sdn Bhd | 211,500 | 0.41 |
| 28. Gwee Siew Young | 210,000 | 0.40 |
| 29. Ooi Cheng Huat @ Ooi Peng Huat | 208,000 | 0.40 |
| 30. Kwan Swee Keong | 206,200 | 0.40 |
| | 28,695,460 | 54.97 |

Note: Without aggregating securities from different securities accounts belonging to the same person

Particular Of Properties

PROPERTIES OF THE GROUP AS AT 31 MARCH 2006

| Location | Description & Usage | Age Of Building | Land Area/ Built Up | Tenure | Net Book Value (RM) | Acquisition Date |
|---|---------------------------|-----------------|--------------------------|---|---------------------|------------------|
| Westech Sdn Bhd No.8, Jalan Riang 22/3 Taman Gembira 81200 Tampoi Johor Bharu | Office/ Warehouse | 14 years | 1,560 sq ft | Freehold | 226,980 | 18-11-95 |
| Plot No.2, Phase 3B Terrace Factory Taman Nagasari, Prai Pulau Pinang | Office/ Warehouse | 9 years | 4,263 sq ft | Freehold | 488,647 | 30-12-96 |
| No.18, Sandy Bay Paradise Hotel, Penang | Hotel Suite | 11 years | 1,200 sq ft | Leasehold expiring 30 years and 2 successive terms of 30 years | 382,224 | 27-10-97 |
| HS (D0 6706 PT 85) Bandar Kawasan Bandar XXXI Daerah Melaka Tengah Negeri Melaka | 4-storey Shop House | 10 years | 2,848 sq ft | Freehold | 622,052 | 27-10-97 |
| Tenco Industries Sdn Bhd 5, Jalan Pelabur 23/1 Section 23 40300 Shah Alam Selangor Darul Ehsan | Office/ Factory | 14 years | 149,149/ 54,319 sq ft | Leasehold expiring 30 years ending 20 Oct 2019 | 4,205,222 | 26-10-89 |
| Tenco Westech Industries Inc # 348-13988 Cambie Road Richmond, B.C., Canada | Office/ Warehouse | 13 years | 2,116 sq ft | Freehold | 551,211 | 5-12-95 |

Form Of Proxy

I/We, NRIC/Company No.
(PLEASE USE BLOCK LETTERS)

of
(FULL ADDRESS)

being a member(s) of TENCO BERHAD hereby appoint

of

or failing whom,of
or failing him/her, the Chairman of the Meeting as my/our proxy to attend and vote for me/us on my/our behalf at the Twenty Second Annual General Meeting of the Company to be held at No.5, Jalan Pelabur 23/1, 40300 Shah Alam, Selangor Darul Ehsan on Tuesday, 26 September 2006 at 10.30 a.m. and at any adjournment thereof.

My/Our proxy is to vote as indicated below:-

| RESOLUTIONS | SUBJECT | *FOR | *AGAINST |
|-------------|---|------|----------|
| 1 | To receive the Audited Financial Statements for the financial year ended 31 March 2006 and Reports of the Directors and Auditors thereon. | | |
| 2 | To re-elect Dato' Lee Ah Chien @ Lee Ow Kim as Director of the Company. | | |
| 3 | To re-elect Mr Kwan Swee Keong as Director of the Company. | | |
| 4 | To re-elect Mdm Wong Keng Shin as Director of the Company. | | |
| 5 | To re-appoint Messrs Tai, Yapp & Co. as auditors of the Company. | | |
| | Special Business – Ordinary Resolutions | | |
| 6 | To approve the payment of Directors' fees. | | |
| 7 | To approve the authority for Directors to issue shares pursuant to Section 132D of the Companies Act, 1965. | | |

*Please indicate with an "X" in the appropriate spaces how you wish your vote to be cast. If you do not do so, the proxy will vote or abstain from voting at his/her discretion.

Signed thisday of2006

| |
|--------------------|
| No. of Shares held |
| |

Signature/ Common Seal of Shareholder

Notes:-

- (i) A member entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote in his stead. A proxy may but need not be a member of the Company. If the proxy is not a member of the Company, then the proxy shall be an advocate or an approved company auditor or a person approved by the Companies Commission of Malaysia. The provision of Section 149(1)(b) of the Companies Act, 1965 shall apply to the Company.
- (ii) The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing, or if the appointer is a corporation, either under seal or under the hand of an officer or attorney duly authorised.
- (iii) A member shall be entitled to appoint more than one proxy. A member who appoints two (2) proxies shall specify the proportion of his shareholdings to be represented by each proxy.
- (iv) The instrument appointing a proxy and the power of attorney (if any) under which it is signed or a notarially certified copy thereof must be deposited at the Registered Office of the Company at No.5, Jalan Pelabur 23/1, 40300 Shah Alam, Selangor Darul Ehsan, not less than 48 hours before the time set for holding this meeting or any adjournment thereof.