

KOTRA INDUSTRIES BERHAD

(Incorporated in Malaysia)
Company No. : 497632 - P

DIRECTORS' REPORT

The directors hereby submit their report and the audited financial statements of the Group and of the Company for the financial year ended 30 June 2006.

PRINCIPAL ACTIVITIES

The Company is principally involved in investment holding and the provision of management services. The principal activities of the subsidiary is set out in Note 7 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

RESULTS

	THE GROUP RM	THE COMPANY RM
Profit after taxation for the financial year	<u>9,987,089</u>	<u>1,736,947</u>

DIVIDENDS

Since the end of the previous financial year, the Company paid a final dividend of 2.5 sen per ordinary share less 28% tax amounting to RM1,012,354 in respect of the previous financial year as proposed in the directors' report of that financial year.

The directors now recommend the payment of a final tax-exempt dividend of 1.0 sen per ordinary share amounting to RM562,419 in respect of the current financial year.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year.

ISSUES OF SHARES AND DEBENTURES

During the financial year,

- (a) there were no changes in the authorised and issued and paid-up share capital of the Company; and
- (b) there were no issues of debentures by the Company.

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OPTIONS GRANTED OVER UNISSUED SHARES

During the financial year, no options were granted by the Company to any person to take up any unissued shares in the Company except for the share options granted pursuant to the Employees' Share Option Scheme.

EMPLOYEES' SHARE OPTION SCHEME

An Employees' Share Option Scheme ("ESOS") was approved by the Securities Commission on 22 April 2003 and the shareholders at an Extraordinary General Meeting held on 10 July 2003.

The principal features of the ESOS are as follows:-

- a. The maximum number of new ordinary shares of RM0.50 each to be offered shall not exceed 20% of the issued and paid-up share capital of the Company at any point of time during the existence of the ESOS. As at the date of this report, the maximum number of such shares amount to 11,248,371.
- b. Eligible directors or employees of the Group are directors or employees of the Group who have been confirmed in the service of the Group prior to the offer or, if the employee is employed under contract basis, the contract should be for a duration of at least one (1) year.
- c. No option shall be granted for less than 100 ordinary shares or more than 2,812,075 ordinary shares to any individual eligible employee.
- d. The option price may be subjected to a discount of not more than 10% of the average of the mean market quotation of the shares as shown in the daily official list issued by Bursa Malaysia Securities Berhad for the five trading days immediately preceding the offer date, or at par value of the shares of the Company, whichever is higher.
- e. An Option is personal to the grantee. Save and except as provided in Clause 20.1 of the Bye-Laws, an Option shall be non-assignable and non-transferable.
- f. The ESOS is in force for a period of 10 years from 24 July 2003 and expires on 23 July 2013.

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EMPLOYEES' SHARE OPTION SCHEME (CONT'D)

The movements in the share options during the financial year are as follows:-

Date of Offer	Exercise period	Exercise price per ordinary share RM	Balance At	During the year			Balance At
			1.7.2005	← Granted	Exercised	→ Lapsed	30.6.2006
24.7.2003	24.7.2004	1.27	1,101,600	-	-	(57,200)	1,044,400
24.7.2003	24.7.2006	1.27	2,203,200	-	-	(114,400)	2,088,800
24.7.2003	24.7.2009	1.27	2,203,200	-	-	(114,400)	2,088,800
15.6.2004	15.6.2005	1.12	155,200	-	-	(23,600)	131,600
15.6.2004	15.6.2007	1.12	310,400	-	-	(47,200)	263,200
15.6.2004	15.6.2010	1.12	310,400	-	-	(47,200)	263,200
12.7.2005	12.7.2006	1.17	-	196,000	-	(20,000)	176,000
12.7.2005	12.7.2008	1.17	-	392,000	-	(40,000)	352,000
12.7.2005	12.7.2011	1.17	-	392,000	-	(40,000)	352,000
			6,284,000	980,000	-	(504,000)	6,760,000

Options exercisable in a particular year but not exercised can be carried forward to the subsequent years provided they are exercised prior to the expiry date of the ESOS on 23 July 2013.

The Company has been granted exemption by the Companies Commission of Malaysia from having to disclose the list of option holders holding share options of less than 200,000 shares.

The eligible employees who have been granted share options of 200,000 or more are as follows:-

No.	Name of Options Holders	Number of Share Options
1.	Piong Nam Kim@Piong Pak Kim	1,000,000
2.	Piong Teck Onn	1,000,000
3.	Piong Teck Yen	1,000,000
4.	Chin Swee Chang	1,000,000
5.	Thanasekaran Dorairajah	250,000
6.	Hiew Mein Foong	200,000
7.	Alan Martin Lewis	200,000
8.	Daniel Chua Chong Liang	200,000

The external auditors have verified the allocation of options granted during the financial year.

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BAD AND DOUBTFUL DEBTS

Before the financial statements of the Group and of the Company were made out, the directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts, and satisfied themselves that all known bad debts had been written off and that adequate allowance for doubtful debts has been made.

At the date of this report, the directors are not aware of any circumstances that would further require the writing off of bad debts, or additional allowance for doubtful debts in the financial statements of the Group and of the Company.

CURRENT ASSETS

Before the financial statements of the Group and of the Company were made out, the directors took reasonable steps to ascertain that any current assets other than debts, which were unlikely to be realised in the ordinary course of business, including their value as shown in the accounting records of the Group and of the Company, have been written down to an amount which they might be expected so to realise.

At the date of this report, the directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Group and of the Company misleading.

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

The contingent liabilities are set out in Note 37 to the financial statements. At the date of this report, there does not exist:-

- (a) any charge on the assets of the Group and of the Company that has arisen since the end of the financial year which secures the liabilities of any other person; or
- (b) any contingent liability of the Group and of the Company which has arisen since the end of the financial year.

No contingent or other liability of the Group and of the Company has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations when they fall due.

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DIRECTORS' REPORT

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Group and of the Company during 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.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect substantially the results of the operations of the Group and of the Company for the financial year.

HOLDING COMPANY

The holding company is Piong Nam Kim Holdings Sdn. Bhd., a company incorporated in Malaysia, which the directors also regard as the ultimate holding company.

DIRECTORS

The directors who served since the date of the last report are as follows:-

Y. BHG. TAN SRI DATUK DR. OMAR BIN ABDUL RAHMAN
PIONG NAM KIM @ PIONG PAK KIM
CHIN SWEE CHANG
OMAR BIN MD. KHIR
PIONG TECK MIN
PIONG TECK ONN
PIONG TECK YEN
PIONG YEW PENG
TAN CHOO JOW
PIONG TECK THEY (ALTERNATE DIRECTOR TO PIONG NAM KIM @ PIONG PAK KIM)

Y. Bhg. Tan Sri Datuk Dr. Omar Bin Abdul Rahman and Piong Nam Kim @ Piong Pak Kim retire at the forthcoming annual general meeting in accordance with Section 129(2) of the Companies Act, 1965 and offer themselves for re-election. The Board recommends that Y. Bhg. Tan Sri Datuk Dr. Omar Bin Abdul Rahman and Piong Nam Kim @ Piong Pak Kim be re-appointed as directors of the Company pursuant to Section 129(6) of the Companies Act, 1965, to hold office until the conclusion of the next annual general meeting.

Pursuant to Articles 106 of the Articles of Association of the Company, Omar Bin Md. Khir and Piong Teck Min retire by rotation at the forthcoming annual general meeting and being eligible, offer themselves for re-election.

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DIRECTORS' REPORT

DIRECTORS' INTERESTS

According to the register of directors' shareholdings, the interests of directors holding office at the end of the financial year in shares and options under the ESOS in the Company and its related corporations during the financial year are as follows:-

	NUMBER OF ORDINARY SHARES OF RM0.50 EACH			
	AT 1.7.2005	BOUGHT	SOLD	AT 30.6.2006
THE COMPANY				
<i>DIRECT INTERESTS</i>				
Y. BHG. TAN SRI DATUK DR. OMAR BIN ABDUL RAHMAN	2,200	-	-	2,200
PIONG NAM KIM @ PIONG PAK KIM	1,196,042	-	-	1,196,042
PIONG TECK MIN	580,100	-	-	580,100
PIONG TECK YEN	1,000	-	-	1,000
OMAR BIN MD. KHIR	396,500	45,000	35,200	406,300
TAN CHOO JOW	95,500	-	-	95,500
PIONG TECK THEY	505,994	-	-	505,994

	NUMBER OF ORDINARY SHARES OF RM0.50 EACH			
	AT 1.7.2005	BOUGHT	SOLD	AT 30.6.2006
THE COMPANY				
<i>INDIRECT INTERESTS</i>				
PIONG NAM KIM @ PIONG PAK KIM	29,374,710	-	-	29,374,710
PIONG TECK MIN	29,374,710	-	-	29,374,710
PIONG TECK ONN	29,374,710	-	-	29,374,710
PIONG TECK YEN	29,374,710	-	-	29,374,710
PIONG TECK THEY	29,374,710	-	-	29,374,710

DEEMED INDIRECT INTEREST

CHIN SWEE CHANG	29,374,710	-	-	29,374,710
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	OPTIONS OVER ORDINARY SHARES OF RM0.50 EACH			
	AT 1.7.2005	BOUGHT	SOLD	AT 30.6.2006
PIONG NAM KIM @ PIONG PAK KIM	1,000,000	-	-	1,000,000
PIONG TECK ONN	1,000,000	-	-	1,000,000
PIONG TECK YEN	1,000,000	-	-	1,000,000
CHIN SWEE CHANG	1,000,000	-	-	1,000,000

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DIRECTORS' REPORT

DIRECTORS' INTERESTS (CONT'D)

	NUMBER OF ORDINARY SHARES OF RM1 EACH			
	AT 1.7.2005	BOUGHT	SOLD	AT 30.6.2006
HOLDING COMPANY				
PIONG NAM KIM HOLDINGS SDN. BHD.				
<i>DIRECT INTERESTS</i>				
PIONG NAM KIM @ PIONG PAK KIM	11,375	-	-	11,375
PIONG TECK MIN	10,000	-	-	10,000
PIONG TECK ONN	51,000	-	-	51,000
PIONG TECK YEN	10,000	-	-	10,000
PIONG TECK THEY	6,250	-	-	6,250
<i>DEEMED INTEREST</i>				
CHIN SWEE CHANG	51,000	-	-	51,000

By virtue of their interests in the Company, Piong Nam Kin @ Piong Pak Kim, Piong Teck Min, Piong Teck Onn, Piong Teck Yen, Chin Swee Chang and Piong Teck They are deemed to have interests in the shares in the subsidiary to the extent of the Company's interest, in accordance with Section 6A of the Companies Act, 1965.

The other directors holding office at the end of the financial year did not have any interest in shares in the Company or its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no director has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by directors as shown in the financial statements, or the fixed salary of a full-time employee of the Company) by reason of a contract made by the Company or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest except for any benefits which may be deemed to arise from transactions entered into in the ordinary course of business with certain directors and with companies in which certain directors have substantial financial interests as disclosed in Note 34 to the financial statements.

Neither during nor at the end of the financial year was the Company a party to any arrangements 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 than the options granted to directors pursuant to the ESOS.

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DIRECTORS' REPORT

AUDITORS

The auditors, Messrs. Horwath, have expressed their willingness to continue in office.

**SIGNED IN ACCORDANCE WITH A RESOLUTION OF THE DIRECTORS
DATED 9 OCTOBER 2006**

Piong Teck Onn

Piong Teck Yen

KOTRA INDUSTRIES BERHAD

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STATEMENT BY DIRECTORS

We, Piong Teck Onn and Piong Teck Yen, being two of the directors of Kotra Industries Berhad, state that, in the opinion of the directors, the financial statements set out on pages 12 to 48 are drawn up in accordance with applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965 so as to give a true and fair view of the state of affairs of the Group and of the Company at 30 June 2006 and of their results and cash flows for the financial year ended on that date.

SIGNED IN ACCORDANCE WITH A RESOLUTION OF THE DIRECTORS DATED 9 OCTOBER 2006

Piong Teck Onn

Piong Teck Yen

STATUTORY DECLARATION

I, Daniel Chua Chong Liang, I/C No. 740823-04-5351, being the officer primarily responsible for the financial management of Kotra Industries Berhad, do solemnly and sincerely declare that the financial statements set out on pages 12 to 48 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
Daniel Chua Chong Liang, I/C No.
740823-04-5351, in the state of Melaka
on 9 October 2006

Daniel Chua Chong Liang

Before me

REPORT OF THE AUDITORS TO THE MEMBERS OF KOTRA INDUSTRIES BERHAD

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We have audited the financial statements set out on pages 12 to 48. The preparation of the financial statements is the responsibility of the Company's directors.

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

We conducted our audit in accordance with approved standards on auditing in Malaysia. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. Our audit included examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. Our audit also included an assessment of the accounting principles used and significant estimates made by the directors, as well as evaluating the overall adequacy of the presentation of information in the financial statements. We believe our audit provides a reasonable basis for our opinion.

In our opinion,

- (a) the financial statements 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 state of affairs of the Group and of the Company at 30 June 2006 and their results and cash flows for the financial year ended on that date; and
 - (ii) 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
- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company and by the subsidiary of which we have acted as auditors have been properly kept in accordance with the provisions of the said Act.

**REPORT OF THE AUDITORS TO THE MEMBERS OF
KOTRA INDUSTRIES BERHAD (CONT'D)**

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We are satisfied that the financial statements of the subsidiary 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.

Our audit report on the financial statements of the subsidiary was not subject to any qualification and did not include any comment made under Subsection (3) of Section 174 of the Companies Act, 1965.

Horwath
Firm No. : AF 1018
Chartered Accountants

Melaka

9 October 2006

Wong Tak Mun
Approval No : 1793/09/08 (J)
Partner

KOTRA INDUSTRIES BERHAD

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BALANCE SHEETS AT 30 JUNE 2006

	NOTE	THE GROUP		THE COMPANY	
		2006 RM	2005 RM (As Restated)	2006 RM	2005 RM
NON-CURRENT ASSETS					
Investment in a subsidiary	7	-	-	50,078,926	23,020,926
Property, plant and equipment	8	29,220,601	26,092,815	-	-
Development expenditure	9	245,087	439,787	-	-
		<u>29,465,688</u>	<u>26,532,602</u>	<u>50,078,926</u>	<u>23,020,926</u>
CURRENT ASSETS					
Inventories	10	13,426,823	14,211,428	-	-
Trade receivables	11	25,996,998	23,984,478	-	-
Other receivables, deposits and prepayments	12	976,795	199,947	1,000	1,000
Tax recoverable		242,930	1,142,025	17,025	18,122
Amount owing by a subsidiary	13	-	-	14,559,070	13,851,573
Fixed deposits with licensed Banks	14	4,010,701	-	-	-
Cash and bank balances		3,793,594	1,925,167	154,413	145,755
		<u>48,447,841</u>	<u>41,463,045</u>	<u>14,731,508</u>	<u>14,016,450</u>
CURRENT LIABILITIES					
Trade payables	15	9,087,021	8,396,238	-	-
Other payables and accruals	16	3,145,991	2,188,476	24,461	33,996
		<u>12,233,012</u>	<u>10,584,714</u>	<u>24,461</u>	<u>33,996</u>
NET CURRENT ASSETS		<u>36,214,829</u>	<u>30,878,331</u>	<u>14,707,047</u>	<u>13,982,454</u>
		<u>65,680,517</u>	<u>57,410,933</u>	<u>64,785,973</u>	<u>37,003,380</u>

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BALANCE SHEETS AT 30 JUNE 2006 (CONT'D)

	NOTE	THE GROUP		THE COMPANY	
		2006 RM	2005 RM (As Restated)	2006 RM	2005 RM
FINANCED BY:-					
Share capital	17	28,120,928	28,120,928	28,120,928	28,120,928
Share premium reserve (Non-distributable)	18	2,804,631	2,804,631	2,804,631	2,804,631
Revaluation reserve	19	-	-	27,058,000	-
Retained profits	20	33,543,322	24,118,652	6,239,995	5,065,467
Dividend proposed		562,419	1,012,354	562,419	1,012,354
SHAREHOLDERS' EQUITY		<u>65,031,300</u>	<u>56,056,565</u>	<u>64,785,973</u>	<u>37,003,380</u>
NON-CURRENT LIABILITIES					
Deferred taxation	21	525,000	1,204,000	-	-
Deferred income	22	124,217	150,368	-	-
		<u>65,680,517</u>	<u>57,410,933</u>	<u>64,785,973</u>	<u>37,003,380</u>
NET TANGIBLE ASSETS PER SHARE					
	23	<u>115.2 SEN</u>	<u>98.9 SEN</u>		

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INCOME STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

	NOTE	THE GROUP		THE COMPANY	
		2006 RM	2005 RM	2006 RM	2005 RM
REVENUE	24	68,899,031	59,704,875	2,077,778	4,300,000
OTHER OPERATING INCOME	25	545,506	244,693	-	-
RAW MATERIALS AND CONSUMABLES USED		(22,546,083)	(26,036,057)	-	-
CHANGES IN INVENTORIES OF FINISHED GOODS AND WORK IN PROGRESS		(875,519)	4,820,722	-	-
STAFF COSTS	26	(12,842,806)	(9,739,162)	(90,814)	(91,818)
DEPRECIATION		(1,967,474)	(1,794,247)	-	-
OTHER OPERATING EXPENSES	25	(21,777,257)	(16,935,466)	(244,691)	(254,501)
PROFIT FROM OPERATIONS		<u>9,435,398</u>	<u>10,265,358</u>	<u>1,742,273</u>	<u>3,953,681</u>
FINANCE COSTS	28	(105,054)	(99,990)	(261)	(117)
PROFIT BEFORE TAXATION		<u>9,330,344</u>	<u>10,165,368</u>	<u>1,742,012</u>	<u>3,953,564</u>
TAXATION	29	656,745	(777,496)	(5,065)	(9,306)
PROFIT AFTER TAXATION		<u>9,987,089</u>	<u>9,387,872</u>	<u>1,736,947</u>	<u>3,944,258</u>
EARNINGS PER SHARE - BASIC	30	17.76 SEN	16.69 SEN	-	-
- DILUTED	30	17.62 SEN	16.57 SEN	-	-
DIVIDENDS PER SHARE - INTERIM	31	-	2.5 SEN	-	2.5 SEN
- FINAL	31	1.0 SEN	2.5 SEN	1.0 SEN	2.5 SEN

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STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

THE GROUP	NOTE	SHARE CAPITAL RM	SHARE PREMIUM RM	RETAINED PROFITS RM	DIVIDEND PROPOSED RM	TOTAL RM
Balance at 1.7.2004		28,120,928	2,804,631	17,149,181	1,012,354	49,087,094
Profit after taxation for the financial year		-	-	9,387,872	-	9,387,872
Dividends						
- paid	31	-	-	(1,406,047)	(1,012,354)	(2,418,401)
- proposed	31	-	-	(1,012,354)	1,012,354	-
Balance at 30.6.2005/1.7.2005		<u>28,120,928</u>	<u>2,804,631</u>	<u>24,118,652</u>	<u>1,012,354</u>	<u>56,056,565</u>
Profit after taxation for the financial year		-	-	9,987,089	-	9,987,089
Dividends						
- paid	31	-	-	-	(1,012,354)	(1,012,354)
- proposed	31	-	-	(562,419)	562,419	-
Balance at 30.6.2006		<u>28,120,928</u>	<u>2,804,631</u>	<u>33,543,322</u>	<u>562,419</u>	<u>65,031,300</u>

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STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006 (CONT'D)

THE COMPANY	NOTE	SHARE CAPITAL RM	SHARE PREMIUM RM	REVALUATION RESERVE RM	RETAINED PROFITS RM	DIVIDEND PROPOSED RM	TOTAL RM
Balance at 1.7.2004		28,120,928	2,804,631	-	3,539,610	1,012,354	35,477,523
Profit after taxation for the financial year		-	-	-	3,944,258	-	3,944,258
Dividends							
- paid	31	-	-	-	(1,406,047)	(1,012,354)	(2,418,401)
- proposed	31	-	-	-	(1,012,354)	1,012,354	-
Balance at 30.6.2005/1.7.2005		<u>28,120,928</u>	<u>2,804,631</u>	<u>-</u>	<u>5,065,467</u>	<u>1,012,354</u>	<u>37,003,380</u>
Profit after taxation for the financial year		-	-	-	1,736,947	-	1,736,947
Revaluation surplus		-	-	27,058,000	-	-	27,058,000
Dividends							
- paid	31	-	-	-	-	(1,012,354)	(1,012,354)
- proposed	31	-	-	-	(562,419)	562,419	-
Balance at 30.6.2006		<u>28,120,928</u>	<u>2,804,631</u>	<u>27,058,000</u>	<u>6,239,995</u>	<u>562,419</u>	<u>64,785,973</u>

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CASH FLOW STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

	NOTE	THE GROUP		THE COMPANY	
		2006 RM	2005 RM	2006 RM	2005 RM
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before taxation		9,330,344	10,165,368	1,742,012	3,953,564
Adjustments for:-					
Allowance for doubtful debts		85,078	1,051	-	-
Bad debts written off		6,389	2,055	-	-
Depreciation of property, plant and equipment		1,967,474	1,794,247	-	-
Development expenditure					
- amortisation		132,293	168,153	-	-
- written off		106,503	57,230	-	-
Unrealised loss on foreign exchange					
- trade		109,260	98,333	-	-
Amortisation of deferred income		(26,151)	(26,151)	-	-
Interest income		(85,490)	(60,950)	-	-
Gain on disposal of plant and equipment		(3,054)	-	-	-
Rental income		(123,700)	(138,600)	-	-
Operating profit before working capital changes		11,498,946	12,060,736	1,742,012	3,953,564
Decrease/(Increase) in inventories		784,605	(5,077,558)	-	-
Increase in trade and other receivables		(2,990,095)	(5,160,755)	-	-
Increase/(Decrease) in trade and other payables		1,648,298	3,502,189	(9,535)	11,400
CASH FROM OPERATIONS		10,941,754	5,324,612	1,732,477	3,964,964
Tax refund/(paid)		876,840	575,613	(3,968)	75,613
NET CASH FROM OPERATING ACTIVITIES CARRIED FORWARD		11,818,594	5,900,225	1,728,509	4,040,577

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CASH FLOW STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006 (CONT'D)

	NOTE	THE GROUP		THE COMPANY	
		2006 RM	2005 RM	2006 RM	2005 RM
NET CASH FROM OPERATING ACTIVITIES BROUGHT FORWARD		11,818,594	5,900,225	1,728,509	4,040,577
CASH FLOWS FOR INVESTING ACTIVITIES					
Interest received		85,490	60,950	-	-
Development expenditure paid		(44,096)	(15,309)	-	-
Purchase of property, plant and equipment		(5,096,706)	(5,442,055)	-	-
Rental received		123,700	138,600	-	-
NET CASH FOR INVESTING ACTIVITIES		(4,931,612)	(5,257,814)	-	-
CASH FLOWS FOR FINANCING ACTIVITIES					
Dividends paid		(1,012,354)	(2,418,401)	(1,012,354)	(2,418,401)
Net advances to a subsidiary		-	-	(707,497)	(1,512,277)
Proceeds from disposal of plant and equipment		4,500	-	-	-
NET CASH FOR FINANCING ACTIVITIES		(1,007,854)	(2,418,401)	(1,719,851)	(3,930,678)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		5,879,128	(1,775,990)	8,658	109,899
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR		1,925,167	3,701,157	145,755	35,856
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR	32	7,804,295	1,925,167	154,413	145,755

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

1. GENERAL INFORMATION

The Company is incorporated as a public company limited by shares under the Malaysian Companies Act, 1965. The domicile of the Company is Malaysia. The registered office and principal place of business are as follows:-

Registered office : 535B, Jalan Merdeka
Melaka Raya, 75000 Melaka.

Principal place of business : No. 1, Jalan TTC 12
Cheng Industrial Estate
75250 Melaka.

The financial statements were authorised for issue by the Board of Directors on 9 October 2006.

2. PRINCIPAL ACTIVITIES

The Company is principally involved in investment holding and the provision of management services. The principal activities of the subsidiary is set out in Note 7 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

3. HOLDING COMPANY

The holding company is Piong Nam Kim Holdings Sdn. Bhd., a company incorporated in Malaysia, which the directors also regard as the ultimate holding company.

4. FINANCIAL RISK MANAGEMENT POLICIES

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its foreign currency, interest rate, market, credit, liquidity and cash flow risks. The policies in respect of the major areas of treasury activity are as follows:-

(a) Foreign Currency Risk

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than Ringgit Malaysia. The foreign currencies giving rise to this risk are disclosed in Note 39 to the financial statements.

In respect of other monetary assets and liabilities held in foreign currencies, the Group carries out reviews periodically to ensure that the net exposure is kept at an acceptable level.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

4. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

(b) Interest Rate Risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Interest rate exposure arises from the Group's borrowings and deposits, and is managed through the use of a mix of fixed and floating rate debts.

Investments in financial assets are short term in nature and are mostly placed as short term deposits with licensed financial institutions.

(c) Market Risk

The Group has exposure to market risks arising from fluctuations in the prices of key raw materials used in the operations. It manages these risks by putting in place appropriate policies.

(d) Credit Risk

Credit risks, or the risk of counterparties defaulting, are controlled by the application of credit approvals, limits and monitoring procedures. Credit risks are minimised by monitoring receivables regularly and by mostly trading with creditworthy customers.

The carrying amounts of cash and cash equivalents, trade receivables and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets. No other financial assets carry a significant exposure to credit risk.

(e) Liquidity and Cash Flow Risks

The Group manages its liquidity risk by maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities to meet estimated commitments arising from operational expenditure and financial liabilities. The Group also has an effective control of cash management to ensure that the Group can pay its targeted dividends to shareholders at an appropriate time.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

5. BASIS OF ACCOUNTING

The financial statements of the Group and of the Company have been prepared under the historical cost convention and modified to include other bases of valuation as disclosed in other sections under significant accounting policies, and are in compliance with applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965.

The MASB Standards nomenclature has been changed to Financial Reporting Standards ("FRS") nomenclature for financial periods beginning on or after 1 January 2005. This change to the new nomenclature did not result in any significant change in the accounting policies adopted by the Group and has no financial effects on the financial statements of the Group and of the Company for the financial year ended 30 June 2006.

6. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary made up to 30 June 2006.

A subsidiary is defined as an enterprise in which the Company has the power, directly or indirectly, to exercise control over the financial and operating policies so as to obtain benefits from its activities.

Prior to the adoption of FRS 122, Business Combinations, the consolidation of the Group has been accounted for using the merger method of accounting. Under the merger method of accounting, the differences between the cost of acquisition and nominal value of the share capital and reserves of the subsidiaries are taken to merger reserves/(deficit). The accumulated merger deficit prior to the adoption of FRS 122, Business Combination has been set off against retained earnings.

Upon the adoption of FRS 122, Business Combinations, which was applied prospectively, subsequent consolidation of subsidiary will be accounted using the acquisition method of accounting.

Intragroup transactions, balances and unrealised gains on transactions are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the financial statements of the subsidiary to ensure consistency of accounting policies with those of the Group.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

6. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Financial Instruments

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

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

Financial instruments recognised in the balance sheet are disclosed in the individual policy statement associated with each item.

(c) Investments

The investment in subsidiary is held on a long term basis and in the previous year, it was stated at cost less impairment at the end of the financial year if events or changes in circumstances indicate that its carrying amount may not be recoverable.

The Company changed its investment in subsidiary policy during the year from cost method to valuation method to reflect a more appropriate presentation of events in the financial statements of the Company.

As a result, investment in subsidiary is now stated at revalued amount less impairment at the end of the financial year if events or changes in circumstances indicate that its carrying amount may not be recoverable.

The revalued amount is based on net tangible asset value, based on revaluations every five (5) years, with additional valuations in the intervening years where market conditions indicate that the carrying amount of the revalued investments differ materially from the underlying net tangible asset values of the subsidiary.

The surplus arising from the revaluation are credited to a revaluation reserve. Deficits arising from the revaluation, to the extent that they are not supported by any previous revaluation surpluses, are charged to the income statement. Gains or losses on disposals are determined by comparing proceeds with carrying amount and are included in profit/(loss) from operations. On disposal of revalued investments, amounts in revaluation reserve relating to those investments are transferred to retained earnings.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

6. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Property, Plant and Equipment

Property, plant and equipment, other than freehold land, are stated at cost less accumulated depreciation, amortisation and impairment loss, if any. Freehold land is stated at cost and is not depreciated.

Depreciation is calculated on the straight-line method to write off the cost of the other assets over their estimated useful lives. The principal annual rates used for this purpose are:

Long term leasehold land	Over the lease ranging from 92 to 99 years
Industrial buildings and installations	2% - 10%
Machinery and equipment	10% - 20%
Motor vehicles	10%
Office equipment	10%
Computer equipment	20%
Furniture and fittings	10%

(e) Impairment of Assets

The carrying values of assets, other than those which FRS 136 Impairment of Assets does not apply, are reviewed at each balance sheet date for impairment when 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.

An impairment loss is charged to the income statement immediately unless the asset is carried at its revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of a previously recognised revaluation surplus for the same asset.

In respect of assets other than goodwill, and when there is a change in the estimates used to determine the recoverable amount, a subsequent increase in the recoverable amount of an asset is treated as a reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately, unless the asset is carried at its revalued amount. A reversal of an impairment loss on a revalued asset is credited directly to the revaluation surplus. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in the income statement, a reversal of that impairment loss is recognised as income in the income statement.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

6. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Research and Development Expenditure

Research expenditure is recognised as an expense when incurred. Costs incurred on developing new pharmaceutical products or significant improvement to existing products are recognised as development expenditure to the extent that such expenditure is expected to generate future economic benefits. Other development expenditure is recognised as an expense when incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Development costs that have been capitalised are amortised from the commencement of the commercial production of the product to which they relate on a straight-line basis over the period of their expected benefit, but not exceeding 5 years. Where the future benefit is uncertain or cannot be reasonably assured, the cost is written off immediately in the income statement.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and includes the cost of materials and incidentals incurred in bringing the inventories to their present location and condition. For finished goods and work-in-progress, cost includes direct labour and an appropriate proportion of production overheads.

In arriving at net realisable value, due allowance is made for all obsolete, damaged and slow-moving items.

(h) Receivables

Receivables are carried at anticipated realisable value. Bad debts are written off in the period in which they are identified. An estimate is made for doubtful debts based on a review of all outstanding amounts at the balance sheet date.

(i) Payables

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

6. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(j) Taxation

Taxation for the year comprises current and deferred tax.

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

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax liabilities are recognised for all taxable temporary differences other than those that arise from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the tax rates that have been enacted or substantially enacted at the balance sheet date.

Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly to equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill. The carrying amounts of deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised.

(k) Government Grants

Government grants are recognised at fair value when there is reasonable assurance that the Company will comply with the conditions attaching to them and the grants will be received. Grants related to purchase of assets are treated as deferred income and allocated to income statement over the useful lives of the related assets while grants related to expenses are treated as other income in the income statement.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

6. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(l) Equity Instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised as liabilities when declared before the balance sheet date. A dividend proposed or declared after the balance sheet date, but before the financial statements are authorised for issue, is not recognised as a liability at the balance sheet date but as an appropriation from retained earnings and treated as a separate component of equity. Upon the shareholders' approval of the proposed dividend, it will be accounted for as a liability.

(m) Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand, bank balances, demand deposits, deposits pledged with financial institutions, bank overdrafts and short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(n) Foreign Currencies

Transactions in foreign currencies are converted into Ringgit Malaysia at the approximate rates of exchange ruling at the transaction dates. Monetary assets and liabilities in foreign currencies at the balance sheet date are translated at the rates ruling as of that date. All exchange differences are taken to the income statement.

(o) Segmental Information

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Segment assets include all assets used by a segment and consist principally of property, plant and equipment (net of accumulated depreciation, where applicable), other investments, inventories, receivables, and cash and bank balances.

Most segment assets can be directly attributed to the segments on a reasonable basis. Segment assets and liabilities do not include income tax assets and liabilities respectively.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

6. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(p) Employee Benefits

(i) Short term benefits

Wages, salaries, paid annual leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group.

(ii) Defined contribution plans

The Group's contributions to defined contribution plans are charged to the income statement in the period to which they relate. Once the contributions have been paid, the Group has no further liabilities in respect of the defined contribution plans.

(iii) Equity Compensation Benefits

The Company's Employees' Share Option Scheme ("ESOS") allows the Group's employees to acquire shares of the Company. No compensation cost or obligation is recognised. When the options are exercised, equity is increased by the amount of the proceeds received.

(q) Revenue Recognition

(i) Sales of Goods

Sales are recognised upon the transfer of risks and rewards of ownership of goods and net of returns and trade discounts.

(ii) Dividend Income

Dividend income from investments is recognised when the right to receive dividend payment is established.

(iii) Interest Income

Interest income is recognised on an accrual basis.

(iv) Management Fee

Management fee is recognised on an accrual basis.

(v) Rental Income

Rental income is recognised on an accrual basis.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

7. INVESTMENT IN A SUBSIDIARY

	THE COMPANY	
	2006 RM	2005 RM
Unquoted shares, at cost	23,020,926	23,020,926
Surplus on revaluation of investment in a subsidiary	27,058,000	-
	<u>50,078,926</u>	<u>23,020,926</u>

Name Of Company	Effective Equity Interest		Principal Activities
	2006	2005	
Kotra Pharma (M) Sdn. Bhd.	100%	100%	Developing, manufacturing and trading of pharmaceutical and healthcare products.

8. PROPERTY, PLANT AND EQUIPMENT

THE GROUP	AS AT 1 JULY 2005 RM	ADDITIONS RM	DISPOSAL RM	DEPRECIATION CHARGE RM	AS AT 30 JUNE 2006 RM
NET BOOK VALUE					
Freehold land	809,984	-	-	-	809,984
Long term leasehold land	4,654,112	-	-	(51,603)	4,602,509
Industrial buildings and installations	12,473,734	1,010,556	-	(346,024)	13,138,266
Machinery and equipment	7,147,014	3,266,627	(1,446)	(1,263,380)	9,148,815
Motor vehicles	348,176	358,833	-	(109,298)	597,711
Office equipment	153,719	16,963	-	(29,556)	141,126
Computer equipment	263,076	190,155	-	(116,862)	336,369
Furniture and fittings	243,000	253,572	-	(50,751)	445,821
	<u>26,092,815</u>	<u>5,096,706</u>	<u>(1,446)</u>	<u>(1,967,474)</u>	<u>29,220,601</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

8. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

THE GROUP

AT 30 JUNE 2006	AT COST RM	ACCUMULATED DEPRECIATION RM	NET BOOK VALUE RM
Freehold land	809,984	-	809,984
Long term leasehold land	4,891,684	(289,175)	4,602,509
Industrial buildings and installations	15,739,863	(2,601,597)	13,138,266
Machinery and equipment	16,359,105	(7,210,290)	9,148,815
Motor vehicles	1,745,629	(1,147,918)	597,711
Office equipment	454,027	(312,901)	141,126
Computer equipment	1,174,249	(837,880)	336,369
Furniture and fittings	900,098	(454,277)	445,821
	<u>42,074,639</u>	<u>(12,854,038)</u>	<u>29,220,601</u>

AT 30 JUNE 2005	AT COST RM	ACCUMULATED DEPRECIATION RM	NET BOOK VALUE RM
Freehold land	809,984	-	809,984
Long term leasehold land	4,891,684	(237,572)	4,654,112
Industrial buildings and installations	14,729,307	(2,255,573)	12,473,734
Machinery and equipment	13,109,978	(5,962,964)	7,147,014
Motor vehicles	1,386,796	(1,038,620)	348,176
Office equipment	437,064	(283,345)	153,719
Computer equipment	984,094	(721,018)	263,076
Furniture and fittings	646,526	(403,526)	243,000
	<u>36,995,433</u>	<u>(10,902,618)</u>	<u>26,092,815</u>

Included in property, plant and equipment are the following fully depreciated plant and equipment which are still in use:-

	THE GROUP	
	2006 RM	2005 RM
At Cost:-		
Machinery and equipment	1,670,285	1,360,598
Motor vehicles	399,540	247,330
Office and computer equipment	731,620	601,806
Furniture and fittings	288,981	210,011
	<u>3,090,426</u>	<u>2,419,745</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

9. DEVELOPMENT EXPENDITURE

	THE GROUP	
	2006 RM	2005 RM
Cost	792,930	855,337
Accumulated amortisation	(547,843)	(415,550)
	<u>245,087</u>	<u>439,787</u>

	THE GROUP	
	2006 RM	2005 RM
Balance at 1 July 2005/2004	439,787	649,861
Additional development expenditure capitalised	44,096	15,309
Development expenditure written off	(106,503)	(57,230)
Amortisation charge for the financial year	(132,293)	(168,153)
Balance at 30 June	<u>245,087</u>	<u>439,787</u>

10. INVENTORIES

	THE GROUP	
	2006 RM	2005 RM
AT COST:-		
Raw materials	4,850,360	4,759,446
Work-in-progress	192,281	127,603
Finished goods	8,384,182	9,324,379
	<u>13,426,823</u>	<u>14,211,428</u>

None of the inventories are carried at net realisable value.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

11. TRADE RECEIVABLES

	THE GROUP	
	2006 RM	2005 RM
Trade receivables	26,334,544	24,249,605
Allowance for doubtful debts		
Balance at 1 July 2005/2004	(265,127)	(268,480)
Additions during the financial year	(85,078)	(1,051)
Written off during the financial year	12,659	4,404
Balance at 30 June	(337,546)	(265,127)
	<u>25,996,998</u>	<u>23,984,478</u>

Included in the trade receivables of the Group is an amount of RM261,232 (2005 - RM251,404) owing by a related party. The nature of related party relationships and details of the transactions involved are disclosed in Note 34 to the financial statements.

The Group's normal trade credit terms range from 60 to 120 days. Other credit terms are assessed and approved on a case-by-case basis.

The foreign currency exposure profile of trade receivables is as follows:-

	THE GROUP	
	2006 RM	2005 RM
United States Dollar	11,557,021	10,164,732
Singapore Dollar	63,600	829,286
	<u>11,620,621</u>	<u>10,994,018</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

12. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	THE GROUP		THE COMPANY	
	2006 RM	2005 RM	2006 RM	2005 RM
Deposits	31,649	77,017	1,000	1,000
Other receivables	857,773	55,440	-	-
Prepayments	87,373	67,490	-	-
	<u>976,795</u>	<u>199,947</u>	<u>1,000</u>	<u>1,000</u>

13. AMOUNT OWING BY A SUBSIDIARY

The amount owing by a subsidiary is unsecured, interest-free and not subject to fixed terms of repayment.

14. FIXED DEPOSITS WITH LICENSED BANKS

The weighted average effective interest rate and weighted average maturity of deposits of the Group at the balance sheet date was 3.10% (2005 - Nil) per annum and 30 days (2005 - Nil) respectively.

15. TRADE PAYABLES

Included in the trade payables of the Group is an amount of RM32,542 (2005 - RM11,062) owing to a related party. The nature of related party relationships and details of the transactions involved are disclosed in Note 34 to the financial statements.

The normal trade credit terms granted to the Group range from 60 to 90 days.

The foreign currency exposure profile of trade payables is as follows:-

	THE GROUP	
	2006 RM	2005 RM
Euro	34,420	1,481,146
United States Dollar	56,526	127,485
Indonesian Rupiah	85,387	170,049
Singapore Dollar	1,108	12,883
Hong Kong Dollar	24,069	-
	<u>201,510</u>	<u>1,791,563</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

16. OTHER PAYABLES AND ACCRUALS

	THE GROUP		THE COMPANY	
	2006 RM	2005 RM (As Restated)	2006 RM	2005 RM
Accrued expenses	587,238	28,000	24,461	33,996
Other payables	682,289	870,528	-	-
Payroll liabilities	1,876,464	1,289,948	-	-
	<u>3,145,991</u>	<u>2,188,476</u>	<u>24,461</u>	<u>33,996</u>

The normal credit terms granted to the Group range from 60 to 90 days.

17. SHARE CAPITAL

	THE COMPANY			
	2006 NUMBER OF SHARES	2005	2006 RM	2005 RM
ORDINARY SHARES OF RM0.50 EACH:-				
AUTHORISED:	<u>100,000,000</u>	<u>100,000,000</u>	<u>100,000,000</u>	<u>100,000,000</u>
ISSUED AND FULLY PAID-UP:	<u>56,241,856</u>	<u>56,241,856</u>	<u>28,120,928</u>	<u>28,120,928</u>

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17. SHARE CAPITAL (CONT'D)

An Employees' Share Option Scheme ("ESOS") was approved by the Securities Commission on 22 April 2003 and the shareholders at an Extraordinary General Meeting held on 10 July 2003.

The principal features of the ESOS are as follows:-

- a. The maximum number of new ordinary shares of RM0.50 each to be offered shall not exceed 20% of the issued and paid-up share capital of the Company at any point of time during the existence of the ESOS. As at the date of this report, the maximum number of such shares amount to 11,248,371.
- b. Eligible directors or employees of the Group are directors or employees of the Group who have been confirmed in the service of the Group prior to the offer or, if the employee is employed under contract basis, the contract should be for a duration of at least one (1) year.
- c. No option shall be granted for less than 100 ordinary shares or more than 2,812,075 ordinary shares to any individual eligible employee.
- d. The option price may be subjected to a discount of not more than 10% of the average of the mean market quotation of the shares as shown in the daily official list issued by Bursa Malaysia Securities Berhad for the five trading days immediately preceding the offer date, or at par value of the shares of the Company, whichever is higher.
- e. An Option is personal to the grantee. Save and except as provided in Clause 20.1 of the Bye-Laws, an Option shall be non-assignable and non-transferable.
- f. The ESOS is in force for a period of 10 years from 24 July 2003 and expires on 23 July 2013.

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17. SHARE CAPITAL (CONT'D)

The movements in the share options during the financial year are as follows:

Date of Offer	Exercise period	Exercise price per ordinary share RM	Balance	During the year			Balance
			At 1.7.2005	← Granted	Exercised	→ Lapsed	At 30.6.2006
24.7.2003	24.7.2004	1.27	1,101,600	-	-	(57,200)	1,044,400
24.7.2003	24.7.2006	1.27	2,203,200	-	-	(114,400)	2,088,800
24.7.2003	24.7.2009	1.27	2,203,200	-	-	(114,400)	2,088,800
15.6.2004	15.6.2005	1.12	155,200	-	-	(23,600)	131,600
15.6.2004	15.6.2007	1.12	310,400	-	-	(47,200)	263,200
15.6.2004	15.6.2010	1.12	310,400	-	-	(47,200)	263,200
12.7.2005	12.7.2006	1.17	-	196,000	-	(20,000)	176,000
12.7.2005	12.7.2008	1.17	-	392,000	-	(40,000)	352,000
12.7.2005	12.7.2011	1.17	-	392,000	-	(40,000)	352,000
			6,284,000	980,000	-	(504,000)	6,760,000

Options exercisable in a particular year but not exercised can be carried forward to the subsequent years provided they are exercised prior to the expiry date of the ESOS on 23 July 2013.

18. SHARE PREMIUM RESERVE (NON-DISTRIBUTABLE)

The share premium reserve arose from the issue of shares by way of private placement and public offer less listing expenses incurred. The share premium is not distributable by way of cash dividends and may be utilised in the manner as set out in Section 60(3) of the Companies Act, 1965.

19. REVALUATION RESERVE

The revaluation reserve of the Company represents the surplus arising from the revaluation of the investment in a subsidiary.

20. RETAINED PROFITS

Subject to agreement with the tax authorities, at the balance sheet date, the Company has sufficient tax credits under Section 108 of the Income Tax Act, 1967 and tax-exempt income account to enable the payment of dividends out of its entire retained profits without incurring any additional tax liabilities.

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21. DEFERRED TAXATION

	THE GROUP	
	2006 RM	2005 RM
Balance at 1 July 2005/2004	1,204,000	449,000
Transfer (to)/from income statement (Note 29)	(679,000)	755,000
Balance at 30 June	<u>525,000</u>	<u>1,204,000</u>
The deferred taxation arises as a result of:		
Deferred tax liabilities		
An excess of carrying value over tax base	2,161,000	1,967,000
Development expenditure capitalised	69,000	123,000
Gross deferred tax liabilities	<u>2,230,000</u>	<u>2,090,000</u>
Deferred tax assets		
Unutilised capital and industrial building allowances	-	(178,000)
Unabsorbed tax losses	(60,000)	(514,000)
Other deferred tax assets	(1,645,000)	(194,000)
Gross deferred tax assets	<u>(1,705,000)</u>	<u>(886,000)</u>
Net deferred tax liability	<u>525,000</u>	<u>1,204,000</u>

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22. DEFERRED INCOME

	THE GROUP	
	2006 RM	2005 RM
Cost	261,510	261,510
Less: Deferred income recognised to date	(137,293)	(111,142)
	<u>124,217</u>	<u>150,368</u>
Balance at 1 July 2005/2004	150,368	176,519
Recognised as income during the financial year	(26,151)	(26,151)
Balance at 30 June	<u>124,217</u>	<u>150,368</u>

Deferred income relates to government grant received by the Group in respect of purchase of plant and equipment.

23. NET TANGIBLE ASSETS PER SHARE

The net tangible assets per share of the Group is calculated based on the net tangible assets value of RM64,786,213 (2005 - RM55,616,778) attributable to ordinary shares divided by the number of ordinary shares in issue at the balance sheet date of 56,241,856 (2005 - 56,241,856) shares of RM0.50 each.

24. REVENUE

	THE GROUP		THE COMPANY	
	2006 RM	2005 RM	2006 RM	2005 RM
Sales of goods	68,899,031	59,704,875	-	-
Dividend income	-	-	1,777,778	4,000,000
Management fees	-	-	300,000	300,000
	<u>68,899,031</u>	<u>59,704,875</u>	<u>2,077,778</u>	<u>4,300,000</u>

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25. OTHER OPERATING INCOME/(EXPENSES)

	THE GROUP		THE COMPANY	
	2006 RM	2005 RM	2006 RM	2005 RM
Included in other operating income/(expenses) are the following:-				
Amortisation of deferred income	26,151	26,151	-	-
Gain on disposal of plant and equipment	3,054	-	-	-
Gain on foreign exchange - realised	58,941	-	-	-
Gross dividend income from subsidiary	-	-	1,777,778	4,000,000
Interest income	85,490	60,950	-	-
Management fee received from subsidiary	-	-	300,000	300,000
Rental income	123,700	138,600	-	-
Allowance for doubtful debts	(85,078)	(1,051)	-	-
Audit fee	(36,000)	(34,000)	(6,000)	(6,000)
Bad debts written off	(6,389)	(2,055)	-	-
Depreciation of property, plant and equipment	(1,967,474)	(1,794,247)	-	-
Development expenditure - amortisation charge	(132,293)	(168,153)	-	-
- written off	(106,503)	(57,230)	-	-
Loss on foreign exchange - realised	-	(64,110)	-	-
- unrealised	(109,260)	(98,333)	-	-
Non-executive directors' fees (Note 27)	(123,000)	(117,000)	(123,000)	(117,000)
Rental expenses	(85,413)	(27,713)	-	-

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26. STAFF COSTS

	THE GROUP		THE COMPANY	
	2006 RM	2005 RM	2006 RM	2005 RM
Salaries and wages	9,415,398	7,382,556	72,898	76,421
Bonus	898,510	575,970	5,945	4,426
Employees Provident Fund	1,074,747	787,851	9,483	9,184
Social Security Contribution	111,295	79,702	994	767
Other staff related expenses	1,342,856	913,083	1,494	1,020
	<u>12,842,806</u>	<u>9,739,162</u>	<u>90,814</u>	<u>91,818</u>

Included in the staff costs of the Group is remuneration paid to directors of the Group of RM1,310,783 (2005 - RM1,044,440) as further disclosed in Note 27 to the financial statements.

27. DIRECTORS' REMUNERATION

The aggregate amount of emoluments received and receivable by directors of the Group and of the Company during the financial year are as follows:-

	THE GROUP		THE COMPANY	
	2006 RM	2005 RM	2006 RM	2005 RM
Non-executive directors				
- fees (Note 25)	123,000	117,000	123,000	117,000
- salaries	-	-	-	-
- bonus	-	-	-	-
- Employees Provident Fund	-	-	-	-
- estimated money value of benefits-in-kind	6,100	5,700	6,100	5,700
- other emoluments	-	-	-	-
	<u>129,100</u>	<u>122,700</u>	<u>129,100</u>	<u>122,700</u>

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27. DIRECTORS' REMUNERATION (CONT'D)

	THE GROUP		THE COMPANY	
	2006 RM	2005 RM	2006 RM	2005 RM
Executive directors				
- salaries	1,020,734	806,960	-	-
- bonus	168,287	135,520	-	-
- Employees Provident Fund	112,764	89,640	-	-
- estimated money value of benefits-in-kind	14,860	11,630	-	-
- other emoluments	8,998	12,320	-	-
	<u>1,325,643</u>	<u>1,056,070</u>	<u>-</u>	<u>-</u>
	<u>1,454,743</u>	<u>1,178,770</u>	<u>129,100</u>	<u>122,700</u>

The details of emoluments for the directors of the Group and of the Company received/receivable for the financial year by category and in bands of RM50,000 are as follows:-

	THE GROUP		THE COMPANY	
	2006 RM	2005 RM	2006 RM	2005 RM
Non-executive directors				
Below RM50,000	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>
Executive directors				
RM150,001 - RM200,000	-	1	-	-
RM200,001 - RM250,000	1	2	-	-
RM250,001 - RM300,000	1	-	-	-
RM300,001 - RM350,000	1	-	-	-
RM350,001 - RM400,000	-	-	-	-
RM400,001 - RM450,000	-	1	-	-
RM450,001 - RM500,000	-	-	-	-
RM500,001 - RM550,000	1	-	-	-

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28. FINANCE COSTS

	THE GROUP		THE COMPANY	
	2006 RM	2005 RM	2006 RM	2005 RM
Bank charges	42,570	50,411	261	117
L/C charges	62,484	49,579	-	-
	<u>105,054</u>	<u>99,990</u>	<u>261</u>	<u>117</u>

29. TAXATION

	THE GROUP		THE COMPANY	
	2006 RM	2005 RM	2006 RM	2005 RM
Malaysian Income Tax:-				
- Current year	18,000	13,000	-	-
- Underprovision in prior years	4,255	9,496	5,065	9,306
	<u>22,255</u>	<u>22,496</u>	<u>5,065</u>	<u>9,306</u>
Deferred tax expenses (Note 21)				
- Relating to origination and reversal of temporary difference	(339,000)	629,000	-	-
- (Over)/Underprovision in prior years	(340,000)	126,000	-	-
	<u>(679,000)</u>	<u>755,000</u>	<u>-</u>	<u>-</u>
Total tax expense	<u>(656,745)</u>	<u>777,496</u>	<u>5,065</u>	<u>9,306</u>

Subject to agreement with the tax authorities, the Group has unabsorbed tax losses of RM215,000 (2005 - RM1,834,000) and unutilised capital and industrial building allowances of Nil (2005 - RM635,000) available at the balance sheet date to be carried forward for offset against future taxable business income.

Also, subject to agreement with the tax authorities, the Group has unutilised reinvestment allowance of RM1,652,000 (2005 - RM2,797,000) available at the balance sheet date to be carried forward for offset against future taxable business income.

Tax savings during the year due to the utilisation of unabsorbed tax losses brought forward amounted to RM260,000 (2005 - RM24,000).

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29. TAXATION (CONT'D)

A reconciliation of the statutory tax rate to the Group and the Company's effective tax rates applicable to profit before taxation is as follows:-

	THE GROUP		THE COMPANY	
	2006 RM	2005 RM	2006 RM	2005 RM
Profit before taxation for the year	9,330,344	10,165,368	1,742,012	3,953,564
Malaysian taxation at statutory rate	2,612,000	2,846,000	488,000	1,107,000
Tax effect of :-				
Amortisation of leasehold land and building	16,000	11,400	-	-
Depreciation on non-qualifying assets	28,000	32,600	-	-
Expenses disallowed for tax purposes	36,000	42,000	10,000	13,000
Reinvestment allowance utilised	(528,000)	-	-	-
Double deduction incentives	(2,485,000)	(2,290,000)	-	-
(Over)/Underprovision of deferred tax in prior year	(340,000)	126,000	-	-
Underprovision of Malaysian Income Tax in prior years	4,255	9,496	5,065	9,306
Tax exempt dividend	-	-	(498,000)	(1,120,000)
Current financial year's taxation charge	(656,745)	777,496	5,065	9,306

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30. EARNINGS PER SHARE

The basic earnings per share for the financial year is arrived at by dividing the Group's profit after taxation of RM9,987,089 (2005 - RM9,387,872) by the number of ordinary shares of RM0.50 each in issue during the financial year of 56,241,856 (2005 - 56,241,856).

The diluted earnings per share is arrived at by dividing the Group's profit after taxation of RM9,987,089 (2005 - RM9,387,872) by the number of ordinary shares in issue during the financial year of 56,241,856 plus the number of dilutive potential ordinary shares of 424,723 (2005 - 415,134).

31. DIVIDENDS

	THE COMPANY	
	2006 RM	2005 RM
Interim		
- interim tax-exempt dividend of Nil (2005 - 2.5 sen) per ordinary share	-	1,406,047
Proposed		
- final tax-exempt dividend of 1.0 sen (2005 - Nil) per ordinary share	562,419	-
- final dividend of Nil (2005 - 2.5 sen) per ordinary share less 28% tax	-	1,012,354
	<u>562,419</u>	<u>2,418,401</u>

32. CASH AND CASH EQUIVALENTS

For the purpose of the cash flow statements, cash and cash equivalents comprise the followings:-

	THE GROUP		THE COMPANY	
	2006 RM	2005 RM	2006 RM	2005 RM
Fixed deposits with licensed banks	4,010,701	-	-	-
Cash and bank balances	3,793,594	1,925,167	154,413	145,755
	<u>7,804,295</u>	<u>1,925,167</u>	<u>154,413</u>	<u>145,755</u>

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33. RELATED COMPANY TRANSACTION

	THE COMPANY	
	2006 RM	2005 RM
Management fee received from a subsidiary	<u>300,000</u>	<u>300,000</u>

34. RELATED PARTY TRANSACTIONS/BALANCES

Significant related party transactions are as follows:-

NAME OF RELATED PARTY	NATURE OF TRANSACTION	THE GROUP	
		2006 RM	2005 RM
Alaf Ekuiti Sdn. Bhd. ^(a)	Rental of premises	36,000	18,000
Appeton Laboratory Sdn. Bhd. ^(b)	Renting of premises as hostel for staff	6,000	6,000
Kwong Onn Tong Sdn. Bhd. ^(c)	Sales of goods	(621,913)	(448,783)
	Rental of premises	(13,200)	(13,200)
Thames Bioscience (M) Sdn. Bhd. ^(d)	Purchase of goods	112,635	121,530
	Rental of premises	(14,400)	(14,400)
Piong Nam Kim Holdings Sdn. Bhd. ^(e)	Dividends paid	528,744	1,263,113
Piong Nam Kim @ Piong Pak Kim	Renting of premises as hostel for staff	6,000	6,000
	Renting of premises as hostel for senior executive	<u>13,200</u>	<u>13,200</u>

(a) A company in which Piong Nam Kim @ Piong Pak Kim and Piong Teck Yen, who are directors of the Company, have direct interests.

(b) A company in which Piong Nam Kim @ Piong Pak Kim, Piong Teck Min, Piong Teck Onn and Piong Teck Yen, who are directors of the Company and Piong Teck They, who is an alternate director of the Company, have direct interests.

(c) A company in which Piong Teck They, who is an alternate director of the Company, has a direct interest.

(d) A company in which Piong Nam Kim @ Piong Pak Kim and Piong Teck Onn, who are directors of the Company, have direct interests.

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34. RELATED PARTY TRANSACTIONS/BALANCES (CONT'D)

(e) The holding company in which Piong Nam Kim @ Piong Pak Kim, Piong Teck Min, Piong Teck Onn and Piong Teck Yen, who are directors of the Company and Piong Teck They, who is an alternate director of the Company, have direct interests.

In the opinion of the directors, the above transactions have been entered into in the ordinary course of business on terms established by arm's length negotiations between the parties.

The significant outstanding balances at the balance sheet date, arising from sales/purchases of goods during the financial year, are as follows:-

NAME OF RELATED PARTY	NATURE OF TRANSACTION	THE GROUP	
		2006 RM	2005 RM
Included in trade receivables (Note 11):-			
Kwong Onn Tong Sdn. Bhd.	Sales of goods	<u>261,232</u>	<u>251,404</u>
Included in trade payables (Note 15):-			
Thames Bioscience (M) Sdn. Bhd.	Purchase of goods	<u>(32,542)</u>	<u>(11,062)</u>

35. NUMBER OF EMPLOYEES

	THE GROUP		THE COMPANY	
	2006	2005	2006	2005
Number of employees (excluding directors at the balance sheet date)	<u>452</u>	<u>452</u>	<u>1</u>	<u>2</u>

36. CAPITAL COMMITMENTS

	THE GROUP	
	2006 RM	2005 RM
Approved and contracted for: - property, plant and equipment	<u>450,000</u>	<u>-</u>

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37. CONTINGENT LIABILITIES

- (a) Corporate guarantee given to a licensed bank for credit facilities granted to the subsidiary amounted to RM9,630,000 (2005 - RM7,730,000).
- (b) In the year 2000, a third party ("the plaintiff") initiated legal action against the subsidiary for alleged infringement of trade marks on two products sold by the subsidiary. As at the date of this report, the suits are at the end of trial stage and both parties are filing their final submission. The Court has fixed 27 January 2007 to deliver its decision for the suits. Should the plaintiff succeed in this legal suit, the subsidiary is liable to court costs and legal fees of approximately RM300,000 and to pay the plaintiff for damages, the quantum of which cannot be determined at the date of this report. The directors are of the opinion that the claims are without basis and hence no provision has been made for in the financial statements.

38. CURRENCY

All amounts are stated in Ringgit Malaysia.

39. FOREIGN EXCHANGE RATES

The applicable closing foreign exchange rates used (expressed on the basis of one unit of foreign currency to Ringgit Malaysia equivalent) for the translation of foreign currency balances at the balance sheet date are as follows:-

	THE GROUP	
	2006 RM	2005 RM
Euro	4.701	4.593
United States Dollar	3.642	3.800
Hong Kong Dollar	0.461	-
Indonesian Rupiah (100 unit)	0.041	0.039
Singapore Dollar	2.286	2.214

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40. SEGMENTAL REPORTING

	THE GROUP	
	2006 RM	2005 RM
SALES REVENUE BY GEOGRAPHICAL MARKET:-		
Malaysia	45,683,711	38,666,883
Other countries in Asia Pacific	23,215,320	21,037,992
	<u>68,899,031</u>	<u>59,704,875</u>

No other segmental information such as segment assets, liabilities and results are presented as the Group is principally engaged in a single pharmaceutical business and operates from Malaysia only.

41. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

- (i) Bank balances and other liquid funds and short-term receivables

The carrying amounts approximate the fair values due to the relatively short-term maturity of these instruments.

- (ii) Short-term borrowings and other current liabilities

The carrying amounts approximate the fair values because of the short period to maturity of these instruments.

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42. COMPARATIVE FIGURES

The following comparative figures of the Group have been reclassified to conform with the current financial year's presentation:-

	As Restated RM	As Previously Reported RM
BALANCE SHEETS (EXTRACT):-		
Current liabilities:		
Trade payables	8,396,238	7,739,065
Other payables and accruals	2,188,476	2,845,649
	<u>2,188,476</u>	<u>2,845,649</u>

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